HUNTINGDON
Real Estate Investment Trust

2008 ANNUAL REPORT

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PRESIDENT'S MESSAGE

Last year, a strategic review process was initiated by Huntingdon Real Estate Investment Trust ("HREIT" or "The Trust") in order to identify the alternatives which were available to the Trust to enhance Unitholder value. In July 2008, as a result of the strategic review, HREIT solicited acquisition or merger proposals. The objective was to be acquired by, or merged with, another business entity and that the merger or acquisition would have a positive impact on unit values. In the fourth quarter of 2008, the increasing severity of the "financial crisis" which led to a dramatic decline in the public equity markets and a general tightening in the debt market, caused HREIT to discontinue the sale/merger solicition process. HREIT also suspended monthly distributions as lending conditions had become much more restrictive and it was considered prudent to conserve cash.

HREIT incurred a loss from continuing operations, before taxes, of approximately $13.7 million in 2008, compared to a loss of approximately $3.4 million in 2007. In very general terms, the increased loss is due to the fact that increases in net operating income did not keep pace with increases in financing leverage. The extent of the loss further compounded by significant increases in amortization charges and non-cash financing charges. During 2008, the loss from continuing operations, before taxes, increased by $10.3 million or 300% while cash from operating activities (excluding expenditures on lease acquisition and maintenance costs and changes in non-cash operating items) decreased by $5.0 million, or 29%.

In 2009, HREIT is focused on attaining improved results through a number of initiatives, including the divestiture of selected properties, paydown of higher cost interim debt, and the projected completion of over $12 million in tenant and building improvements. The de-leveraging initiatives of HREIT in 2009 will be led by $80.5 million of debt reduction from the proposed sale of Cityplace in downtown Winnipeg which is scheduled to close on May 1, 2009. Debt reduction includes higher cost interim mortgage loans of $23.9 million.

Planned additional diversitures of selected individual assets, if completed, are expected to improve liquidity and debt ratios. Operating revenues and income of the remaining portfolio are budgeted to increase this year. Management remains committed to improving the performance of HREIT.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Huntingdon Real Estate Investment Trust ("HREIT" or the "Trust") is an unincorporated closed-end real estate investment trust governed by the laws of the Province of Manitoba pursuant to an Amended and Restated Declaration of Trust dated June 6, 2006 (the "Declaration of Trust"). The trust units of HREIT are listed on the Toronto Stock Exchange under the symbol "HNT.UN.".

Forward-Looking Information

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of HREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of HREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements, including risks associated with debt financing, availability of cash flow, the taxation of trusts, public markets, real property ownership, liquidity, negative economic conditions, future property acquisitions, availability of suitable investments, competition, land leases, tenant risk, fixed costs, general uninsured losses, interest rate fluctuations, environmental matters, Unitholder liability, conflicts of interest, changes in legislation and investment eligibility, other tax-related risk factors, nature of units, legal rights attaching to units, structural subordination of units; dilution, relationship with property manager and reliance on key personnel. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, HREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither HREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase price, acquisition cost/acquisition value and gross book value

The Management's Discussion and Analysis employs the following terms and definitions:

Purchase price	The cost of purchasing a property excluding legal fees, land transfer tax, closing costs and adjustments.
Gross book value	Total assets as defined by generally accepted accounting principles adjusted to add back accumulated amortization and deduct cash and cash equivalents.

Non-GAAP Measurements

This report combines a number of measurements which are not calculated or presented in accordance with Canadian generally accepted accounting principles (GAAP) or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of HREIT. Management believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

FINANCIAL AND OPERATING SUMMARY

	Year Ended December 31		
	2008	2007	2006
KEY PERFORMANCE INDICATORS			
Operating results			
Total revenue	79,110,115	74,182,388	57,072,998
Net operating income *	43,469,979	42,798,128	32,649,514
Income (loss) from continuing operations before income tax recovery (expense)	(13,743,241)	(3,438,916)	(875,892)
Income (loss) from continuing operations	(11,833,377)	316,948	(935,492)
Income (loss) for the period	(9,888,625)	879,706	(74,682)
Cash flows			
Cash inflow (outflow) from operating activities	1,698,626	10,435,971	9,505,080
Funds from Operations (FFO)*	9,838,271	16,862,026	14,518,877
Adjusted Funds from Operations (AFFO)*	5,238,577	16,194,889	12,336,743
Distributable income*	11,984,965	18,352,504	14,700,094
Operations *			
Quarter end occupancy rate	92 %	93 %	94 %
Increase (decrease) in same property operating income	(6)%	3 %	N/A
Capital reinvestment *			
Additions to building and equipment	2,969,136	11,736,248	1,908,769
Additions to properties under development	9,350,852	3,542,726	nil
Lease acquisition costs	6,797,673	5,685,198	4,327,459
Long term maintenance costs			
Recoverable	2,246,947	1,979,164	1,718,230
Non recoverable	198,215	660,047	279,257
Total	2,445,162	2,639,211	1,997,487
DISTRIBUTIONS			
Amount - total	15,198,398	20,141,386	18,931,533
- per unit	0.21	0.28	0.28
Financing *			-
Mortgage loan debt to gross book value ratio	59.62 %	58.97 %	65.30 %
Weighted average interest rate of long-term debt	6.28 %	6.46 %	6.79 %

PER UNIT AMOUNTS

	Year Ended December 31					
	2008		2007		2006	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Operating income	0.600	0.600	0.597	0.596	0.485	0.485
Income (loss) from continuing operations before income tax recovery expense	(0.190)	(0.190)	(0.048)	(0.048)	(0.014)	(0.014)
Income (loss) from continuing operations	(0.163)	(0.163)	0.004	0.004	(0.015)	(0.015)
Income (loss) for the period	(0.136)	(0.136)	0.012	0.012	(0.001)	(0.001)
Funds from Operations (FFO)*	0.136	0.136	0.235	0.235	0.234	0.234
Adjusted Funds from Operations (AFFO)*	0.072	0.072	0.226	0.226	0.182	0.182
Distributable income *	0.165	0.165	0.256	0.256	0.217	0.217

* Non-GAAP measurements. See note on page 3.

EXECUTIVE SUMMARY

Business Strategy

Last year, after undertaking a strategic review of its operations, HREIT began the process of soliciting sale or merger proposals from other business entities. In the fourth quarter, the sale/merger solicitation process was discontinued when no acceptable proposal was received. HREIT also suspended monthly distributions.

Acquisition Development and Dispositions

During 2008, HREIT completed new East District Police Station in Winnipeg at a cost of $12.5 million; invested $9.9 million in property and leasehold improvements; and sold two industrial properties, generating net proceeds of $4.1 million.

Operating Income and Net Loss

Operating income increased by $671,851 or 2% during 2008. The increase mainly reflects the following variables:

- an increase in operating income from 2007 property acquisitions of $3,283,385;
- operating income of $316,872 from the new East District Police Station;
- a decrease in operating income from the portfolio of "same" office properties of $1,914,381 or 12%;
- a decrease in interest income and increase in general trust expenses of $440,196; and
- a decrease in operating income from property management operations of $253,271.

In summary, the increased operating income from the 2007 acquisitions was offset by decreases in operating income from the portfolio of "same" office properties.

Significant increases in financing expense, amortization charges, strategic review expenses and trust expenses, combined with the modest increase in operating income, resulted in an increase in the loss from continuing operations, before taxes, of $10,304,325 or 300%.

Financing expense increased by $6,008,133 or 25%, primarily due to:

- an increase in interest expense on mortgage loan debt of $2,428,742. The increase mainly reflects a $7.3 million increase in interim mortgage loans and additional mortgage loan financing of $12.5 million for the new East District Police Station;
- an increase in interest expense on convertible debenture debt of $820,813; and
- an increase in the non-cash component of financing expense of $2,758,578, of which approximately 50% pertains to a decrease in the fair value of the interest rate swap agreement.
- Amortization charges increased by $2,768,430 or 14.0%, of which approximately 49% pertains to a reduction in the carrying value of HREIT's property management company;
- During 2008, HREIT incurred strategic review expenses of $1,630,781; and
- Trust expense increased by $568,832 or 24.2%, primarily due to an increase in the service fee of Shelter Canadian Properties Limited ("Shelter Canadian") and an increase in unit-based compensation expense.

After accounting for a $1,381,994 increase in income from discontinued operations and a $1,846,000 decrease in income tax recoveries, HREIT completed 2008 with a net loss of $9,888,625, compared to net income of $879,706 in 2007.

Leasing and Marketing

The overall occupancy rate for the year decreased slightly to 92%. Leases for 53,400 square feet and 15,000 square feet which take effect on February 1, 2009 and March 9, 2009 respectively will return the occupancy rate to 93%.

The tenant retention rate for 2008 lease renewals was 77.4% based on leasable area.

The decrease in the occupancy rate reflects the impact of tenant bankruptcies or other business interruptions which added 84,193 square feet to vacancy.

For 2009, HREIT has successfully renewed 69,484 square feet of space with the Government of Canada at 280 Broadway Avenue in Winnipeg. The rent will increase from $18.79 psf to $26.28 psf or $520,000 per annum. Over the ten year term of the lease, the net aggregate increase in cash flow from the renegotiated lease will be approximately $1 million after deducting the $4.25 million of landlord work and leasehold improvements.

Operating Cash Flows

In 2008, HREIT generated cash from operating activities, excluding changes in non-cash operating items, of $2,915,319, compared to $8,788,051 in 2007. The decrease in operating cash flow is mainly attributable to an increase in the cash component of financing expenses and an increase in strategic review expenses, compounded by the decrease in same property operating income particularly in the office sector. The decrease in operating cash flow, combined with a reduction in escrow funding, also resulted in a decrease in Distributable Income, Funds from Operation ("FFO") and Adjusted Funds from Operations ("AFFO").

SALE OF CITYPLACE

On February 27, 2009, HREIT announced the sale of the Cityplace property in downtown Winnipeg for $81.5 million. The expected sale proceeds in the amount of approximately $80.5 million, after expenses and net cash proceeds after repaying Cityplace mortgages in the amount of approximately $24.3 million, will be primarily utilized to repay the high cost interim mortgage debt of HREIT. The transaction is scheduled to close on May 1, 2009.

BUSINESS OVERVIEW

General

Huntingdon Real Estate Investment Trust ("HREIT" or the "Trust") is an unincorporated real estate investment trust which was established in February 2005. The trust units of HREIT and Series C convertible debentures are listed on the Toronto Stock Exchange under the symbol "HNT.UN" and "HNT.DBC", respectively.

The investment policies and operations of HREIT are subject to the overall control and directions of the Board of Trustees, pursuant to the terms of the Declaration of Trust. Shelter Canadian provides administrative and asset management services to HREIT, pursuant to the terms of a Services Agreement and the President of Shelter Canadian, Mr. Arni C. Thorsteinson, is one of the trustees of HREIT. Shelter Canadian is also the property manager for HREIT, pursuant to the terms of a Property Management Agreement.

HREIT currently has six trustees on its Board, all of whom are designated as "independent trustees", aside from Mr. Thorsteinson.

HREIT has an ownership interest in a diversified portfolio of commercial properties, located across western Canada and in Ontario and the Northwest Territories. The leasing of space in the commercial properties to third-party tenants, pursuant to the terms of contractual lease agreements, is the primary source of revenue for HREIT. HREIT also has a 100% interest in a property management company, from which it derived approximately 4.0% of its revenues in 2008.

The financial statements of HREIT provide segmented results for the commercial properties by geographic location and by property type. Operating results pertaining to the property management company and to general Trust operations are disclosed separately in the segmented financial information.

Investment Strategy

Prior to 2008, the primary growth strategy of HREIT was to expand its income base by acquiring additional commercial properties.

In 2008, the Board initiated a strategic review process to review all of the alternatives which were available to HREIT to enhance Unitholder value. The Board of Trustees established a Special Committee, comprised of all of the independent trustees, to oversee the strategic review process. RBC Capital Markets was retained as financial advisor to HREIT.

As a result of the strategic review process, the Board of Directors approved a process to solicit proposals for HREIT to be acquired by, or merged with, another entity.

During 2008, property acquisitions were not purused. The investment activity of HREIT, in regard to new properties, consisted of the completion of one property which was under development as of December 31, 2007 (the new East District Police Station in Winnipeg). HREIT also sold two light industrial properties during 2008.

During the sale/merger solicitation process, the Special Committee reviewed multiple expressions of interest and non-binding purchase offers that were received from third parties, none of which offered sufficient value to the Unitholders. As discussed below, the sale/merger solicitation process was suspended in the fourth quarter of 2008.

The costs of $1,630,781 which were incurred by HREIT in regard to the strategic review had a significant impact on the 2008 operating results of the Trust.

Ongoing Management of Properties

The primary strategy of HREIT in regard to the management of its properties is to initiate measures to maximize the operating income of the real estate portfolio, including the implementation of financial management practices, operating procedures, responsive management services and proactive leasing strategies. In order to enhance the long-term income potential and value of its property portfolio, HREIT also undertakes capital improvements and renovations throughout its property portfolio on an ongoing basis. As opportunities arise, comprehensive redevelopment programs are also undertaken by HREIT, at selected properties, as deemed appropriate.

During the past three years, there have been six main properties which have been selected for a comprehensive redevelopment program, comprised of four large retail centres and two large office complexes. The redevelopment programs have been completed at the four retail properties, however, the lease up of vacant space at one of the properties has not been completed. The redevelopment program at one of the office properties is also nearing completion.

As discussed in further detail later in the report, the completion of the redevelopment programs has resulted in a significant increase in operating income for the redeveloped properties. During the time period in which a redevelopment program is in process, the operating income of the property typically declines, pending the completion of the property improvements and the re-leasing of space. The decline in operating income from one of the office properties that was under redevelopment in 2008 (Cityplace) is one of the main variables affecting the operating results of the Trust in 2008.

Financing

HREIT typically funds up to 75% of the purchase price of a new property from the proceeds of mortgage loan debt, while the remaining balance, or equity component, is funded from reserves of investment capital. The investment capital of HREIT has primarily been raised through the issuance of trust units or convertible debentures, although HREIT has also utilized short-term financing facilities and the upward refinancing of property debt as a source of capital for investment and operating activities. As of December 31, 2008, short-term interim mortgage loans represent 7% of the total mortgage loan indebtedness of HREIT.

Whenever practicable, HREIT has utilized fixed rate debt financing with terms which are appropriate for the nature of the leases and the properties being financed. Debt maturity dates have also been staggered, to the extent practicable, in order to reduce refinancing risk and to provide a potential source of additional capital as mortgage loans are refinanced.

Pursuant to the terms of the Declaration of Trust, the total mortgage indebtedness of HREIT shall not exceed 75% of the appraised value of HREIT's property portfolio. As of December 31, 2008, the Trust was in compliance with this condition.

One of the objectives of HREIT for 2009 is to eliminate short-term and higher cost interim mortgage loan financing through the sale of individual properties.

Current Economic Conditions

There is currently a high level of economic uncertainty and financial market volatility. The operations and business strategies of HREIT are discussed in additional detail in the following section of this report, with specific regard to the impact of the current economic conditions.

IMPACT OF ECONOMIC AND FINANCIAL UNCERTAINTY ON OPERATIONS

General Considerations

Time-Line

During the month of October 2008, stock markets experienced declines in value, including the Toronto Stock Exchange, which experienced a 17% decline in value in October 2008.

The events which led to the financial crisis in the United States and the collapse and subsequent volatility of global financial markets also created a heightened level of economic uncertainty and a more restrictive and conservative lending market. The economic and financial uncertainty has also impacted operations and growth of HREIT.

Suspension of Distributions

On October 22, 2008, HREIT suspended the payment of distributions to conserve cash. The need to borrow funds to finance distributions, and the level of interim mortgage loan financing were also contributing factors in the decision to suspend monthly distributions.

Suspension of Sale/Merger Process

On October 22, 2008, due to the negative impact of the financial and economic uncertainty in the financial markets and real estate markets in Canada, HREIT also suspended the process of soliciting sale/merger proposals. The Special Committee was also discontinued in October 2008.

During 2009, HREIT has undertaken the sale of Cityplace to pay down debt and reduce the debt level of the Trust. The Trustees and management are also continuing to evaluate alternatives to maximize Unitholder value and strengthen the balance sheet of HREIT.

Decline in Unit Value

The trading price of HREIT trust units decreased from a price of $2.30 per unit, as of January 1, 2008, to a price of $0.20 per unit on December 31, 2008.

The low trading price of the HREIT trust units, combined with stock market conditions, has precluded HREIT from raising capital through additional trust unit or convertible debenture offerings. From a more general perspective, the current level of economic and financial uncertainty has increased the level of risk associated with publicly-traded investments, including investments in HREIT.

Unitholder Rights Plan

On October 22, 2008, the Board of Trustees also adopted a Unitholder Rights Plan. The need for the Unitholder Rights Plan is based on the ongoing belief of the Board of Trustees and the management of HREIT that the underlying value of the assets of the Trust is in excess of the current trading price of the units.

The Unitholder Rights Plan is intended to ensure that the existing Unitholders of HREIT receive fair treatment in the event that a person or entity makes an unsolicited attempt to gain control of the Trust. The implementation of a Unitholder Rights Plan is considered to be of critical importance, particularly given the extent to which the volatility in the stock markets, combined with the suspension of distributions, have negatively impacted the trading price of the units.

Details of the Unitholder Rights Plan are provided in the Annual Information Form a copy of which is available on the SEDAR website at www.sedar.com.

Real Estate Market Conditions

The revenue of HREIT is primarily driven by a demand for space in office, retail and industrial properties. In general terms, demand is higher when overall economic conditions are favourable, although there are many other variables which affect demand and property occupancy levels, including the specific location and type of property, the terms of existing leases and the tenant profile. The timing of major redevelopment programs has also been a significant variable affecting the occupancy levels of the HREIT property portfolio.

Although the property portfolio of HREIT is diversified geographically and by property type, a higher proportion of the revenue base is derived from properties in Winnipeg and, in particular, from office properties in Winnipeg. Retail properties throughout southern Ontario account for the highest percentage of revenue in HREIT's retail property portfolio, while the industrial property portfolio derives the majority of its revenue from properties in Winnipeg and, to a lesser extent, from properties located throughout Alberta and southern Ontario.

As indicated in the Conference Board of Canada, Provincial Outlook Economic Forecast: Winter 2009, the economic and financial uncertainty which currently exists in the global marketplace has impacted regions of Canada to a greater extent than others, with the manufacturing based economics in southern Ontario and Quebec experiencing the most significant economic slowdown, followed by the commodity-based economics in British Columbia and Alberta. The economy in Manitoba and Saskatchewan has been affected to a lesser degree, as these two provincial economies are more diversified.

As a result of the relative stability of the Winnipeg commercial rental market, and given the high level of geographic and industry sector diversification for HREIT's "non-Winnipeg" property portfolio, HREIT has not experienced a significant change in overall occupancy levels or leasing results for its property portfolio. HREIT has, however, experienced an increase in incidents of tenants moving before the expiry of their lease, some tenant bankruptcy's and an increase in overdue receivables and bad debts. The potential impact of recessionary influences on the demand for commercial space and on the operations of existing tenants remains one of the primary risk factors for HREIT.

Liquidity

Financing

The uncertainty in capital markets has also increased the level of risk for HREIT in regard to debt financing.

As disclosed in more detail in the MD&A, HREIT has $84.4 million of mortgage loan debt maturing during 2009, representing 24.6% of total long-term debt, as of December 31, 2008. The maturing debt includes $19.3 million of demand mortgages or mortgages with annual review requirements and $23.9 million of interim financing with terms of one year. The total year end debt also includes $26.1 million of mortgage loan debt with a maturity date in the first quarter of 2009.

Refinancing has been secured for $22.3 million of the mortgage loans which mature in the first quarter of 2009 and the balance of the maturing loans are expected to be renewed.

In the event that HREIT is unable to renew its mortgage loan debt at maturity, or obtain replacement financing, HREIT may not be in a position to repay the debt and may be considered to be in default of its debt obligations. In such event, the lenders could potentially take action against HREIT and the indebted properties.

Sources of Capital

In 2008 and prior years, HREIT has utilized interim mortgage financing to supplement the funding of distributions, as well as the funding of property acquisition and improvements.

In 2009, it is anticipated that the interim mortgage loans will be reduced from the proceeds of sale from Cityplace and from the upward refinancing of first mortgage loans. In the event that the sale of Cityplace is not completed and if the extent of upward refinancings is less than anticipated, it may be necessary for HREIT to pursue additional interim mortgage financing as a source of capital.

The ability of HREIT to successfully complete additional interim mortgage financing arrangements has not been impaired by the current level of economic uncertainty in Canada, however, there are no assurances that this will continue to be the case.

Overall Risk Factors

There are numerous risk factors associated with an investment in HREIT, many of which are not directly related to, or directly affected by, the current level of economic and financial uncertainty. As with previous reports, the key risk factors, including the above noted risks regarding financial market volatility and changing economic conditions, are also discussed in the latter sections of the MD&A. Other risks and uncertainties are more fully explained in the other regulatory filings of HREIT, including its Annual Information Form. A discussion of risk management and the management of capital is contained in the accompanying financial statements.

REAL ESTATE INVESTMENT PORTFOLIO

Summary

The property portfolio of HREIT, as of December 31, 2008, consists of 77 income producing properties and two parcels of land held for development. The entire property portfolio has a total purchase price of $502 million and comprises 5.4 million square feet of leasable area.

New Income-Producing Properties

During September 2008, the construction of a new 33,000 square foot East District Police Station in Winnipeg was substantially completed and added to HREIT's portfolio of income-producing office properties. Development of the property by HREIT commenced in the third quarter of 2007, pursuant to an agreement with the City of Winnipeg. The East District Police Station is located at 1750 Dugald Road in Winnipeg, Manitoba.

Total construction costs for the East District Police Station were $12.5 million or 100% of the total contract amount, of which $9.3 million was incurred during 2008. Initially, $8,140,564 of the construction costs were funded by a construction loan. In November 2008, a floating rate first mortgage loan of $12.5 million was arranged for the property and the construction loan was fully repaid. Prior to September 2008, the property was classified as a "Property Under Development". The City of Winnipeg has leased the property from HREIT for a 30 year period with an option to purchase at the end of the lease term, as well as in year 10 and year 20.

Property Sales

During 2008, HREIT sold two light industrial properties, encompassing a total of 73,600 square feet of leasable area, or approximately 1/10 of 1% of the total leasable area of the light industrial property portfolio. After repayment of the first mortgage loan debt, the net proceeds from the sale of the two properties was $4.1 million.

The net income generated by the properties in 2008, as well as the transactions associated with the sale of the properties, are classified separately under "discontinued operations" in the financial statements of the Trust. Additional details regarding the property sales are provided in the analysis of discontinued operations in this report.

Property Acquisitions in 2007

During 2007, HREIT completed over $101 million of additional property acquisitions, comprised of a full or partial interest in eleven light industrial properties and 18 office properties, including five parking lots. All 18 of the office properties and four of the industrial properties were acquired on or subsequent to June 1, 2007, while seven of the industrial properties were acquired in March 2007.

The total purchase price of the industrial properties was approximately $45 million, while the total purchase price of the office properties was approximately $56 million.

The incremental revenue and expenses associated with the ownership of the properties for 12 months in 2008, compared to a partial year in 2007, had a significant impact on the comparability of operating results of the Trust between the two periods.

Property Improvements

During 2008, HREIT invested $9.9 million in property improvements and leasing costs, excluding the construction costs for the new East District Police Station in Winnipeg.

Reduction in Carrying Value of Property Management Company

As previously disclosed, the real estate investments of HREIT include a 100% controlling interest in Consolidated Real Estate Services Inc. ("CRESI"), a property management company that is located in Calgary, Alberta.

The original book value of CRESI was primarily based on the projected income from a portfolio of commercial property management agreements. During the second quarter of 2008, the projected income from the original portfolio of commercial property management agreements was reduced by approximately $1,043,409 or 37%, due to the sale of a number of the managed properties and the resultant termination of the management agreements.

In accordance with generally accepted accounting principles, the reduction in income on which the original value of CRESI was determined necessitated a reduction in the book value of the CRESI acquisition costs. The majority of CRESI acquisition costs were recorded as "Deferred Charges" or, more specifically, as "deferred management fees". The reduction in the book value of CRESI encompassed a non-recurring amortization charge to deferred management fees of $1,346,107 during the second quarter of 2008, representing the total unamortized amortization expense charges pertaining to the terminated contracts.

In terms of new business, CRESI assumed management of five residential condominium properties, comprising 593 units during 2008 and has signed contracts for the management of a further three condominium properties, comprising 442 units, with commencement dates in the first half of 2009. On an annual basis, the new property management contracts are expected to contribute $220,000 and $160,000 to property management revenue and net operating income respectively.

ANALYSIS OF INCOME/LOSS

Analysis of Income (Loss) - 2008 versus 2007

	Year Ended December 31 2008	Year Ended December 31 2007	Change
Total revenues	$ 79,110,115	$ 74,182,388	$ 4,927,727
Total operating and property management costs	35,640,136	31,384,260	(4,255,876)
Net operating income	43,469,979	42,798,128	671,851
Trust expense	2,924,225	2,355,393	(568,832)
Strategic review expense	1,630,781	-	(1,630,781)
Income before financing expense, amortization, discontinued operations and taxes *	38,914,973	40,442,735	(1,527,762)
Financing expense	30,147,130	24,138,997	(6,008,133)
Income before amortization, discontinued operations and taxes *	8,767,843	16,303,738	(7,535,895)
Amortization	22,511,084	19,742,654	(2,768,430)
Income (loss) from continuing operations before income tax recoveries/expense *	(13,743,241)	(3,438,916)	(10,304,325)
Income tax recoveries	1,909,864	3,755,864	(1,846,000)
Income (loss) from continuing operations	(11,833,377)	316,948	(12,150,325)
Income from discontinued operations	1,944,752	562,758	1,381,994
Income (loss) for the period	$ (9,888,625)	$ 879,706	$ (10,768,331)

* Non GAAP measurement. See note on page 3.

Overall Results

A comparison of the 2008 and 2007 financial results of HREIT is provided in the previous chart. As disclosed in the chart, the loss of HREIT from continuing operations, excluding taxes, increased by $10,304,325 in 2008, compared to 2007. In general terms, the increase in the loss reflects the following factors:

(a) the increase in financing expense exceeded the increase in operating income from the property portfolio by approximately $5.3 million in 2008. Specifically, operating income from the property portfolio increased by approximately $0.7 million during 2008, whereas financing expense increased by approximately $6.0 million.

(b) the incurrence of strategic review expenses of approximately $1.6 million in 2008;

(c) an increase in Trust expenses of $568,832 in 2008; and

(d) an increase in amortization charges of approximately $2.8 million in 2008, of which approximately $1.3 million or 49% pertain to a non-recurring adjustment to the carrying value of CRESI.

Including income taxes and discontinued operations, HREIT incurred a loss of $9.9 million during 2008, compared to income of $0.9 million in 2007. The 2008 results reflect an decrease in income tax recoveries of $1.8 million and an increase in income from discontinued operations of $1.4 million.

A detailed analysis of all of the above noted variables is provided in the following sections of this report.

Revenue

Total Revenues

Analysis of Total Revenues - 2008 vs. 2007

	Total Revenue Year Ended December 31		Percentage of Total Revenues Year Ended December 31	
	2008	2007	2008	2007
Income properties	$ 75,956,319	$ 70,672,837	96 %	95 %
Property management	3,093,199	3,008,758	4 %	4 %
Trust	60,597	500,793	- %	1 %
Total revenues	$ 79,110,115	$ 74,182,388	100 %	100 %

Revenue from the portfolio of income properties is the primary source of revenue for HREIT, accounting for 96% and 95% of the total revenue of the Trust during 2008 and 2007, respectively.

Revenues by Geographic Market Segment

Analysis of Income Property Revenues by Geographic Market Segment

	Percentage of Total Income Property Revenue Year Ended December 31	
	2008	2007
Income Properties:		
Winnipeg	51 %	48 %
Other Manitoba	5 %	5 %
Total Manitoba	56 %	53 %
Ontario	25 %	27 %
Alberta	8 %	9 %
Northwest Territories	6 %	6 %
Saskatchewan	4 %	4 %
British Columbia	1 %	1 %
	100 %	100 %

Although HREIT has been operating under a long-term investment strategy with the objective of creating a real estate portfolio which is diversified geographically and by property type, the current property portfolio is more heavily concentrated in Manitoba and Ontario, with the vast majority of Manitoba properties located in Winnipeg. During 2008, the Winnipeg portfolio accounted for 51% of the total revenues from income properties. After deducting revenues from Cityplace, the percentage of revenue derived from Winnipeg is 36%.

Revenues by Business Sector

Analysis of Total Revenues by Business Sector

	Total Revenue		Increase (Decrease)	
	2008	2007	2008	%
Income Properties				
Office	$ 36,659,359	$ 33,186,646	$3,472,713	10 %
Retail	26,243,296	26,726,306	(483,010)	(2)%
Industrial	13,053,664	10,759,885	2,293,779	21 %
Total Income Properties	75,956,319	$ 70,672,837	5,283,482	7 %
Property Management	3,093,199	3,008,758	84,441	3 %
Trust	60,597	500,793	(440,196)	(88)%
	$ 79,110,115	$ 74,182,388	$4,927,727	7 %

Note: All of the revenue from CRESI is allocated to "Alberta" for segmented financial reporting purposes and there is no geographic segmentation for Trust "operations".

Income Properties

The total revenues of HREIT increased by $4,927,727 in 2008, compared to 2007, comprised of a $5,283,482 increase in revenue from income properties, a $84,441 increase in property management revenue and a $440,196 decrease in revenue from Trust "operations". As reflected in the preceding chart, the office property sector accounted for approximately 60% of the total increase in revenue from income properties during 2008.

The office property sector currently represents the largest segment of the HREIT portfolio in terms of revenues generated from income properties. During 2008, the office sector accounted for $36,659,359 or 48% of the total revenues from income properties, compared to 35% for the retail sector and 17% for the industrial sector.

Property Management Operations

As noted above, revenue from property management operations increased by $84,441, representing an increase of 3%. The increase in revenue reflects an increase in revenue from new property management contracts. The decrease in revenue from the loss of commercial property management contracts is not fully reflected in the 2008 results as the sale of properties occurred in September 2008.

As previously disclosed, the reduction in the income stream from the original portfolio of commercial property management contracts also resulted in a non-recurring amortization charge to deferred management fees of $1,346,107.

Trust Operations

Revenue from Trust operations is comprised almost exclusively of interest income on the cash resources of the Trust. As noted above, revenue from Trust operations decreased by $440,196 during 2008, representing a decrease of 88%. The decrease reflects a decrease in the excess cash balance of the Trust throughout 2008, compared to 2007 and a corresponding decrease in interest income.

Rental Revenue from Income Properties

Overall Results

As noted above, revenue from income properties increased by $5,283,482 during 2008 compared to 2007, comprised of an increase in rental revenue of $5,425,786 and a decrease in interest and other income of $142,304. The increase in rental revenue reflects an increase in revenue from all of the property sectors.

A detailed analysis of the revenue and net income results for the entire portfolio of same and new properties is also provided in the following sections of this report.

Recovery of Property Operating Costs

General

Rental revenue from income properties is mainly comprised of "base" rental revenues and rental revenues which pertain to the recovery of property operating costs. As disclosed in note 14 to the audited financial statements, rental revenue from income properties includes revenue derived from the recovery of property operating costs of $21,565,098 in 2008 and $21,299,298 in 2007, compared to operating costs of $32,590,393 and $28,672,229 respectively, representing a cost recovery rate of 66% and 74%, respectively.

The decrease in the recovery rate of property operating costs in 2008 is mainly due to two factors:

- an increased vacancy loss in the portfolio of "same" office properties, with the majority of the vacancy loss being attributable to Cityplace; and

- adjustments to reverse approximately $331,000 of prior years operating cost recoveries, the majority of which pertains to the portfolio of same office properties.

Adjustment to Prior Years Operating Cost Recoveries

In the normal course of business, the Trust will estimate the amount of the recoveries in comparison to costs incurred and accrue additional revenue. The accruals are subsequently billed to tenants based on annual statements of operating income. During 2008, as part of the billing process, it was determined that certain cost recovery estimates for 2007 and prior years were not accurate for a number of properties. Accordingly, adjustments were recorded in 2008 to reverse accrued revenue related to the recovery of prior year property operating costs in the aggregate of $331,340. Approximately 76% of the adjustment, or $252,512, was recorded during the second quarter of 2008.

Lease Analysis

Tenant Profile

The lease portfolio of HREIT consists of a high percentage of tenancies with well-established operations, offering strong covenants, and which enhance the overall stability and quality of the tenant base of the Trust. As reflected in the following chart, the 15 largest tenants in the HREIT portfolio (based on revenue generation) account for 39.52% of total rental revenue and 40.07% of the gross leasable area, as of December 31, 2008. The 15 largest tenancies include leases from the federal government and from the government of the Northwest Territories and the provinces of Manitoba and Saskatchewan, which represent 21.77% of total rental revenue and 15.87% of the gross leasable area.

Largest Tenants by Revenue - December 31, 2008

	Total Rental Revenue	% of Total Rental Revenue	Area Leased * (square feet)	Percentage of Portfolio	Rank Based On Area	Number of Locations
Province of Manitoba	$ 8,260,277	10.99 %	399,181	7.41 %	1	6 (12 leases)
Government of Canada	5,115,190	6.81 %	257,582	4.78 %	3	7 (14 leases)
The Great-West Life Assurance Co	1,814,270	2.41 %	86,467	1.61 %	10	2 (3 leases)
Government of Northwest Territories	1,713,426	2.28 %	52,541	0.98 %	17	1 (4 leases)
Bison Diversified	1,562,194	2.08 %	135,998	2.53 %	7	1
Minacs Worldwide Inc.	1,548,166	2.06 %	103,179	1.92 %	9	1
Northern Group Retail Ltd.	1,452,177	1.93 %	258,960	4.81 %	2	1
Zellers	1,316,408	1.75 %	161,091	2.99 %	5	2
Province of Saskatchewan	1,272,791	1.69 %	145,603	2.70 %	6	2
International Truck	1,253,761	1.67 %	218,570	4.06 %	4	1
Leader Energy Services	1,203,302	1.60 %	61,680	1.15 %	14	2
Royal Bank	1,005,733	1.34 %	44,363	0.82 %	20	1
Wal-Mart	795,293	1.06 %	63,439	1.18 %	13	1
Purolator Courier Ltd.	708,217	0.94 %	113,864	2.11 %	8	1
Staples	680,892	0.91 %	55,590	1.03 %	15	3
	$ 29,702,097	39.52 %	2,158,108	40.07 %		

* For tenants in co-owned properties, the leased area has been adjusted to reflect proportional ownership.

Occupancy Levels

	Industrial		Retail		Office		Total	
	GLA	Occ.	GLA	Occ.	GLA	Occ.	GLA	Occ.
2008								
December 31	1,885,218	98 %	1,824,328	86 %	1,676,239	93 %	5,385,785	92 %
September 30	1,885,220	98 %	1,806,008	87 %	1,675,296	94 %	5,366,524	93 %
June 30	1,925,540	97 %	1,806,040	94 %	1,642,306	90 %	5,373,886	93 %
March 31	1,949,816	96 %	1,810,150	90 %	1,641,449	89 %	5,401,415	92 %
2007								
December 31	1,958,816	96 %	1,810,150	90 %	1,641,449	89 %	5,410,415	93 %
September 30	1,949,816	96 %	1,810,150	88 %	1,606,045	90 %	5,366,011	92 %
June 30	1,749,648	96 %	1,810,150	88 %	1,268,822	95 %	4,828,620	93 %
March 31	1,711,059	96 %	1,814,093	90 %	1,228,975	96 %	4,754,127	93 %
2006								
December 31	1,148,107	99 %	1,933,220	90 %	1,228,975	96 %	4,310,302	94 %
September 30	1,148,107	99 %	1,926,519	89 %	1,228,975	96 %	4,303,601	94 %
June 30	1,195,214	98 %	1,931,778	90 %	1,269,690	94 %	4,396,682	93 %
March 31	863,253	99 %	1,916,304	92 %	671,453	97 %	3,451,010	95 %
2005								
December 31	863,253	95 %	1,899,220	92 %	482,685	95 %	3,245,158	93 %

Overview

As disclosed in the preceding chart, the quarter-ending occupancy rates for the entire property portfolio were relatively constant throughout 2007 and 2008, ranging from 92% to 93%, compared to 94% at the end of 2006.

In regard to the individual property sectors, the occupancy rate for the industrial sector was also relatively constant throughout 2007 and 2008, while there was a greater degree of fluctuation within the retail and office sectors. For the retail sector, the average of the quarter-ending occupancy rates, from the start of the first quarter of 2007 to the start of the fourth quarter of 2008, was relatively comparable. For the office sector, however, there was a marked decrease in the average of the quarter-ending occupancy rates with the average occupancy rate for the office sector decreasing from 94% in 2007 to 90.5% in 2008. The fluctuation in the occupancy rate within the office sector is reflective of the decrease in revenues and net operating income which was experienced in 2008 for the portfolio of "same" office properties, with the majority of the decrease being attributable to Cityplace.

Office Portfolio

Cityplace

In August 2007, one of the major office tenants at Cityplace vacated, resulting in approximately 68,000 square feet of vacant space and loss of approximately $1.2 million of annual rental revenue.

Although all of the vacant space was subsequently re-leased to three new tenants, the space remained unoccupied during the first seven months of 2008, and partially unoccupied until February 1, 2009, pending the completion of extensive landlord and leasehold improvements. Specifically, one of the new tenancies, comprising 16% of the available space, commenced on August 1, 2008, while the two other new tenancies commenced on November 1, 2008 and February 1, 2009, representing 26% and 58% of the available space, respectively. The new tenancies will contribute $1.8 million per annum to revenue and net operating income.

As a result of the increase in the vacancy loss, the revenue from Cityplace was approximately $1.4 million lower in 2008, compared to 2007.

The loss of office tenancies with higher gross rental rates affects both the total revenue results of the Trust and the recovery rate of property operating costs.

Retail Portfolio

As noted above, the average of the quarter-ending occupancy rates for the retail property sector was relatively comparable in 2007 and 2008 however, overall, the retail property sector experienced a $483,010 or 2% decrease in revenue during 2008. The decrease is comprised of decreases in revenue at Crossroads Centre, Southland Mall, and Cumbria Centre, offset by relatively modest revenue increases at the majority of the retail properties, and significant revenue increases at the three retail centres which have completed a comprehensive redevelopment program and lease up, and in particular Portage Place

Redeveloped Retail Properties

During 2008, the revenue of the three retail centres which have completed a comprehensive redevelopment, increased by $986,395, compared to 2007, including a $542,994 revenue increase at Portage Place. The increase in revenue at Portage Place mainly reflects the lease-up of space which was previously unoccupied due to property renovations, as well as an increase in rental rates. Although the redevelopment at Southland Mall; has been completed; the lease up is not expected to be completed until 2010.

Crossroads Centre

Since September 2007, when the amount of vacant space at Crossroads Centre was approximately 8,000 square feet, approximately 75,000 became vacant primarily as a result of tenant bankruptcies or tenants discontinuing business and vacating the premises without landlord approval. Current occupancy is 94,142 square feet or 48.6%.

The revenue of Crossroads Centre was $766,644 lower in 2008, compared to 2007, as a result of the increase in vacant space.

Cumbria

In December 2007, 5,671 square became vacant as a result of a tenant discontinuing business and vacating the premises without landlord approval. The 2008 revenue of Cumbria was $195,253 lower than the 2007 revenue, reflecting a $134,000 revenue reduction primarily related to the above noted vacancy and a $76,820 adjustment to prior year operating cost recovery, $35,400 of which relates to the above noted space.

Southland

During 2008, 11,665 square feet became vacant as a result of a bankruptcy of two tenants. The 2008 revenue at Southland was $219,549 lower than the 2007 revenue primarily as a result of the above noted vacancy.

2008 Leasing Results

As of December 31, 2008, 7.6% or 414,499 square feet of the gross leasable area of the HREIT property portfolio was vacant, compared to 6.8% or 378,661 square feet of gross leasable area as of December 31, 2007.

The following details the change in vacancy:

		Square Feet
Vacant space, December 31, 2007		378,661
Adjustment for sale of two properties		(19,747)
		358,914
Leases expired	533,646	
Leases renewed	(413,157)	120,489
Vacant space leased		(161,077)
Tenant terminations other than at lease renewal		84,193
Adjustment to gross leaseable area		11,980
Vacant space, December 31, 2008		414,499

The renewal rate for 2008 lease expiries was 77.4%.

Head lease arrangements until September 1, 2012 provide that HREIT is paid rent in respect of 10,700 square feet of vacant space.

The December 31, 2008 vacancy will be reduced by the following 2009 leases.

Property	Tenant	Effective Date	Area
Cityplace	Manitoba Public Insurance Company	February 1, 2009	53,400
Portage Place	Urban Planet	March 9, 2009	15,000
			68,400

After adjusting for the 2009 leasing, there is 346,099 square feet of space available for lease representing 6.7% of the total gross leasable area (in comparison to vacancy of 7.6%).

Vacant space at December 31, 2008 includes the following :

(a) 71,900 square feet at Cityplace to be reduced by 53,400 square feet of office space which is fully leased as of February 1, 2009;

(b) 20,000 square feet of retail space at Portage Place to be reduced by 15,000 square feet which is leased as of March 9, 2009;

(c) 99,700 square feet of vacant retail space at Crossroads Centre;

(d) 33,500 square feet of vacant space at Southland Mall.

2009 Lease Expiries

The long-term objective of HREIT is to create a property portfolio with a relatively balanced level of lease maturity dates throughout each property sector. Tenants in multi-tenant properties in all asset classes typically lease for terms of four to five years, whereas single tenants in industrial properties typically lease for longer terms. A balanced lease maturity schedule would, therefore, be expected to have lease expiries of 10% to 15% in any one year. As disclosed in the following chart, the percentage of leases expiring during the period commencing January 1, 2010 for the HREIT portfolio is relatively balanced.

Leases Expiring	2009	2010	2011	2012	2013	Weighted Average Term to Maturity
Industrial						
GLA	438,489	176,967	87,291	311,194	154,233	7.33
% of Industrial Portfolio	22.5 %	9.1 %	4.5 %	15.9 %	7.9 %	
Retail						
GLA	280,463	160,431	235,277	216,522	102,195	5.03
% of Retail Portfolio	15.4 %	8.8 %	12.9 %	11.9 %	5.6 %	
Office						
GLA	274,563	255,647	122,276	60,445	373,957	5.71
% of Office Portfolio	18.4 %	15.9 %	7.6 %	3.8 %	23.2 %	
Total	993,515	593,045	444,844	588,161	630,385	5.90
% of leasable area	16.5 %	11.0 %	8.3 %	10.9 %	11.7 %	

The current status of the 2009 lease expiries is as follows:

Analysis of 2009 Lease Expiries

	Gross Leasable Area	% of Total
Leases renewed	279,721	28.2 %
Lease renewal terms under negotiation	160,731	16.2 %
Under discussion/overholding	474,637	47.8 %
Sub-total	915,089	92.1 %
Tenants vacating	78,426	7.9 %
	993,515	100 %

280 Broadway

The 2009 statistics reflect a ten year lease renewal negotiated with the Department of Public Works and Government Services (Canada) for 69,848 square feet. In accordance with the terms, the lease will be renewed at $26.28 p.s.f. gross for the first year with base year escalation. The above rent represents an increase in rent of $522,768 per annum in comparison to the existing rent. The lease will require the landlord to complete $4.25 million in leasehold and building improvements including the following:

- upgrade the building HVAC system to a new heat pump system (including two new boilers);
- upgrade elevators;
- install new flooring, window coverings, light fixtures and paint; and
- upgrade premises and washrooms to current accessibility standards.

The cost of the capital expenditures are expected to be financed with the proceeds of an increased first mortgage loan.

Projected Occupancy Rate - 2009

During 2009, it is anticipated that the overall occupancy rate for the HREIT portfolio will remain in the 92% to 93% range.

Operating Costs

Analysis of Operating Cost by Business Sector

	Year Ended December 31		Increase (Decrease)	
	2008	2007	2008	%
Income Properties				
Office	$ 18,326,620	$ 15,614,121	$ 2,712,499	17 %
Retail	10,579,862	10,466,492	113,370	1 %
Industrial	3,683,911	2,591,616	1,092,295	42 %
Total income properties	32,590,393	28,672,229	3,918,164	14 %
Property Management	3,049,743	2,712,031	337,712	12 %
Total portfolio	$ 35,640,136	$ 31,384,260	$ 4,255,876	14 %

Income Properties

During 2008, operating costs for the entire portfolio of income properties increased by $3,918,164 or 13%, compared to 2007. For the office and industrial sectors, the increase generally reflects the extent and timing of property acquisitions in 2007, as well as inflationary cost increases. For the retail sector, the increase is generally attributable to inflationary cost increases.

Property Management Operations

During 2008, property management costs increased by $337,712 or 12%, compared to 2007, representing a cost increase which is $253,271 greater than the increase in property management revenue during 2008. The increase in property management costs is mainly attributable to inflationary increases in salaries expense and other variable costs. The higher increase in property management costs, relative to the increase in property management revenues, reflects the fact that the cost of staffing and operational requirements for operating the property management company were essentially the same in 2008 and 2007, notwithstanding that a number of property management contracts were significantly reduced in late 2008 due to the sale of a number of the managed properties.

Net Operating Income and Operating Margin

Summary Analysis of Net Operating Income by Business Sector

	NOI		Increase (Decrease)		Operating Margin	
	2008	2007	2008	%	2008	2007
Income Properties						
Office	$ 18,332,739	$ 17,572,525	760,214	4 %	50 %	54 %
Retail	15,663,434	$ 16,259,814	(596,380)	(4)%	60	62
Industrial	9,369,753	8,168,269	1,201,484	15 %	72	76
Total income properties	43,365,926	42,000,608	1,365,318	3 %	57	59
Property Management	43,456	296,727	(253,271)	(85)%	1	10
Trust	60,597	500,793	(440,196)	(88)%	N/A	N/A
Total portfolio	$ 43,469,979	$ 42,798,128	671,851	2 %	55 %	57 %

General

After accounting for revenue and cost increases, the net operating income from the portfolio of income properties increased by $1,365,318 or 3% during 2008, compared to 2007, while the net operating income from property management and Trust operations decreased by $253,271 and $440,196, respectively.

As previously disclosed, the decrease in NOI for property management operations reflects operating cost increases, while the decrease in NOI from Trust operations is due to a decrease in interest income.

Income Properties

Industrial Properties

The most favourable results were attained in the industrial property sector, with the sector achieving an NOI increase of 15% and accounting for 88% of the total increase in NOI from income properties. The increase in NOI in the industrial property sector reflects the acquisition of additional industrial properties in 2007, offset by a $59,130 decrease in NOI for "same" industrial properties. The decrease in NOI from same industrial properties reflects a $150,000 bad debt allowance. The results, however, reflects the continuation of a high operating margin for industrial properties. As disclosed in the preceding chart, the operating margin for the industrial property sector was 72% in 2008.

Office Properties

The office property sector achieved an NOI increase of 4% in 2008, which does not reflect the extent of additional office property acquisitions in 2007. In general terms, the NOI results for the office sector reflect an increase in NOI from new office properties largely offset by a decrease in NOI from "same" office properties. The decrease in NOI from same office properties is mainly attributable to the increase in the vacancy rate for office properties, the majority of which is attributable to Cityplace, and to a lesser extent, to the adjustment of prior year operating cost recoveries which was most prevalent in the office sector.

Retail Properties

The retail property sector experienced a 4% decrease in NOI in 2008. Although there were no property acquisitions or property sales in the retail portfolio during 2007 or 2008, HREIT has expended approximately $3.5 million in improvements to retail properties during the past two years, of which approximately 69% pertains to comprehensive redevelopment programs at four retail properties.

As with the decrease in revenue, the NOI decrease in the retail sector reflects relatively modest NOI decreases at the majority of the retail properties and more significant NOI increases at the three retail centres which have undergone a comprehensive redevelopment and lease up program, particularly at Portage Place, largely offset by a significant NOI decrease at Crossroads Centre, Southland Mall and Cumbria Centre. Specifically, the total NOI increase for the retail sector is comprised of an NOI increase of $935,255 at the three retail properties which were significantly upgraded in 2007 or 2008 as part of a comprehensive redevelopment program and NOI decrease of $741,555 at Crossroads Centre, $282,561 at Cumbria Centre, $252,125 at Southland Mall, and an NOI increase of $79,558 at the other retail properties.

Revenue and NOI Analysis for Same and New Properties

The analysis of "same" and "new" property operating results for 2008 encompasses the 49 properties which have been in the income-producing portfolio of HREIT since December 31, 2006 ("same properties") and the 28 properties which have been added to the income-producing portfolio of HREIT subsequent to December 31, 2006 ("new properties"). The two properties which were sold in 2008 are excluded from the analysis. One of the sold properties was originally acquired in 2005, while the other property was acquired in 2007.

As disclosed in the chart below, the revenue and net operating income of the 77 properties increased by 8.0% and 3.0%, respectively, during 2008. The increase is comprised of the following:

- an increase in revenue and net operating income of the 28 "new properties", of $6,574,792 and $3,600,252, respectively; and

- a decrease in revenue and net operating income of the 49 "same properties", of $1,149,006 and $2,234,939, respectively.

Rental Revenue from Income Properties - Year Ended December 31, 2008

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) %
Rental revenue from properties owned on January 1, 2007:				
14 light industrial	$ 6,907,764	$ 6,737,412	$ 170,352	3 %
26 retail	25,944,671	25,804,839	139,832	1 %
9 office	28,811,955	30,271,145	(1,459,190)	(5)%
	61,664,390	62,813,396	(1,149,006)	(2)%
Rental revenue from 28 properties acquired after January 1, 2007.	13,500,460	6,925,668	6,574,792	N/A
Revenues from income properties	$ 75,164,850	$ 69,739,064	$ 5,425,786	8 %

NOI from Income Properties - Year Ended December 31, 2008

	2008	2007	Increase (Decrease) Amount	Increase (Decrease) %
NOI from properties owned on January 1, 2007:				
14 light industrial	$ 5,380,624	$ 5,439,754	$ (59,130)	(1)%
26 retail	15,663,433	15,924,861	(261,428)	(2)%
9 office	13,991,919	15,906,300	(1,914,381)	(12)%
	35,035,976	37,270,915	(2,234,939)	(6)%
NOI from 28 properties acquired after January 1, 2007.	8,329,950	4,729,693	3,600,257	N/A
NOI from income properties	$ 43,365,926	$ 42,000,608	$ 1,365,318	3 %

As has been discussed at length in the preceding sections of this report, the decrease in revenue and NOI from the portfolio of "same" properties is entirely due to a decrease in revenue and NOI for the portfolio of "same" office properties, the majority of which is attributable to Cityplace. Properties which had the most significant impact on the same property results, both positive and negative, are as follows:

	NOI		Increase (Decrease)	
	2008	2007	Amount	%
NOI Decreases				
Cityplace - Office	$ 4,946,751	$ 6,239,557	$ (1,292,806)	(21)%
Crossroads - Retail	1,430,235	2,171,790	(741,555)	(34)%
Cumbria - Retail	(81,120)	201,441	(282,561)	(140)%
Southland - Retail	1,461,351	1,713,476	(252,125)	(15)%
	7,757,217	10,326,264	(2,569,047)	(25)%
NOI Increases				
Portage Place - Retail	2,195,525	1,723,463	472,062	27 %
Speedvale - Retail	1,487,095	1,250,710	236,385	19 %
Lincoln - Retail	887,158	660,350	226,808	34 %
	4,569,778	3,634,523	935,255	26 %
	12,326,995	13,960,787	(1,633,792)	(12)%

Trust Expense

General

Trust expense increased by $568,832 or 24.2% during 2008, compared to 2007.

The increase in trust expenses is mainly due to an increase in the services fee of Shelter Canadian reflecting an increase in the property portfolio and in unit-based compensation expense.

Service Fee

The service fee of Shelter Canadian Properties Limited is paid on a monthly basis and is equal to 0.3% of the net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. During 2008, the service fee of Shelter Canadian increased by $316,433, compared to 2007. The increase in the service fee of Shelter Canadian Properties Limited reflects the fact that the quarter-ending net book value of the Trust's assets was comparatively higher in 2008, primarily due to the additional property acquisitions which occurred throughout 2007.

Additional information in regard to the administrative, asset management and property management services which are provided to HREIT by Shelter Canadian Properties Limited and the associated remuneration is provided in the section of this report entitled "Related Party Transactions".

Unit-based Compensation Expense

Unit based compensation expense reflects the deemed cost of the compensation which is provided to the trustees, officers, employees or consultant employees of HREIT in the form of unit options or deferred units. During 2008, such compensation expense increased by $286,903, compared to 2007. The increase in unit compensation expense is mainly due to the implementation of a compensation package for independent trustees in 2008 and the payment of the compensation in the form of deferred units.

The following chart discloses the amount of compensation which pertained to the Deferred Unit Plan and the Unit Option Plan in 2007 and 2008.

Unit Based Compensation

	2008	2007	Increase (Decrease)
Deferred unit plan	317,973	-	317,973
Unit option plan	7,690	38,760	(31,070)
	325,663	38,760	286,903

Deferred Unit Plan

In March 2008, the Trustees approved a compensation package for independent Trustees whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair, and attending meetings. The total fees for 2008 amounted to $317,973.

During 2008, HREIT adopted a Deferred Unit Plan for Trustees, officers, employees and consultants pursuant to a resolution which was approved at the 2008 Annual and Special Meeting of the Unitholders. Under the Deferred Unit Plan, Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. The number of deferred units granted is determined by dividing the amount of the compensation by the market value of the trust units on the date on which the compensation is payable.

All of the independent Trustees elected to have their compensation paid in the form of deferred units during 2008. Accordingly, the payment of the compensation of $317,973 resulted in the granting of 422,158 deferred units at weighted average market value of $0.75 per unit.

Unit Option Plan

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the trustees, directors and senior officers of HREIT and to other individuals who are employed or retained by the Trust (including employees of Shelter Canadian) to perform specific duties. In accordance with generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation".

During 2008, HREIT granted options to acquire 700,000 units at a weighted average price of $2.12 per unit pursuant to the Unit Option Plan. The cost of the 700,000 unit options was estimated to be $7,690, all of which is reflected in unit-based compensation expense in 2008.

In 2007, HREIT granted options to acquire a total of 900,000 units at a price of $2.36. The cost of the 900,000 unit options was estimated to be $38,760, all of which is reflected in unit-based compensation expense in 2007.

In 2007 and 2008, no unit options were exercised.

Impact of Trustee Compensation on Operating Cash Flow

Payments of units under the Deferred Unit Plan and Unit Option Plan are unit based compensation expense, which is a "non-cash" expense and does not affect the operating cash flow of the Trust.

Financing Expense

Financing expense increased by $6,008,133 or 25% during 2008, compared to 2007, of which 75% pertains to mortgage loan financing and 25% pertains to debenture financing.

Financing expense encompasses mortgage loan and convertible debenture interest, as well as a number of "non-cash" expenses, including accretion, amortization charges for transaction costs and mortgage premiums and expenses pertaining to the change in fair value of interest rate swap. During 2008, the "non-cash" portion of financing expense amounted to $4,936,251, representing 16.4% of the total financing expense.

Analysis of Financing Expense

	Year Ended December 31		Increase (Decrease)	
	2008	2007		%
Debentures				
Interest expense (a)	$ 4,468,180	$ 3,647,367	$ 820,813	23 %
Accretion of debt component	1,914,058	$ 1,408,946	505,112	36 %
Amortization of transaction costs	553,080	$ 386,831	166,249	43 %
	6,935,318	$ 5,443,144	1,492,174	27 %
Mortgages				
Mortgage loan interest (b)	20,742,699	$ 18,313,957	2,428,742	13 %
Change in value - swap asset	1,375,631	$ (7,010)	1,382,641	19,724 %
Amortization of mortgage premiums	(111,122)	$ (117,541)	6,419	(5)%
Amortization of transaction costs	1,204,604	$ 506,447	698,157	138 %
	23,211,812	$ 18,695,853	4,515,959	24 %
Total	$ 30,147,130	$ 24,138,997	$ 6,008,133	25 %
Total interest expense (a + b)	$ 25,210,879	$ 21,961,324	$ 3,249,555	15 %

Interest Expense - Mortgage Loans

Interest expense on mortgage loans increased by $2,428,742 or 13% during 2008, compared to 2007.

The increase mainly reflects:

- incremental financing expense on the mortgage loan debt for 2007 property acquisitions and the construction financing/final financing of the new East District Police Station;
- an increase in mortgage loan debt of HREIT of approximately $30 million as a result of upward refinancing; and
- an increase in the amount of interim mortgage loan financing.

The above noted increase in mortgage loan debt and financing expense was partially offset as a result of regular mortgage loan principal payments of approximately $8.3 million.

A detailed analysis of the increase in the mortgage loan debt of HREIT is provided in the "Capital Resources and Liquidity" section of this report.

Interest Expense - Debentures

Interest expense on convertible debentures increased by $820,813 or 23% during 2008, compared to 2007. The increase reflects the issuance of $48.3 million of convertible debenture debt during the period from March 29, 2007 to April 5, 2007, partially offset by the conversion of $750,000 of Series A debentures in January 2008.

Total Interest Expense

As a percentage of operating income, total interest for mortgage loans and convertible debentures increased from 51.3% during 2007 to 58.0% during 2008. The increase in the ratio of interest, relative to operating income, reflects the extent to which the increase in interest expense has exceeded the increase in net operating income during 2008, due to the following inter-related factors:

(i) a decline in NOI returns from the asset base of the Trust, particularly in regard to the portfolio of "same" office properties.

(ii) an increase in the amount of convertible debenture debt relative to the total cost of income properties; and

(iii) a moderate increase in the mortgage loan debt ratio of the income properties, relative to the total cost of properties;

Change in Value of Swap Asset

As disclosed in the preceding chart, the increase in financing expense in 2008 includes an amount of $1,382,641 related to the change in value of an "interest rate swap".

The interest rate swap is an arrangement whereby HREIT has effectively exchanged a floating rate mortgage for a fixed rate mortgage in order to reduce the risk associated with floating interest rates. The interest rate swap agreement is a derivative financial instrument and it is recorded at "fair value" on the balance sheet of the Trust. Changes in fair value are recognized as earnings/losses through charges to financing expense. Increases in fair value serve to decrease financing expense, while decreases in fair value serve to increase financing expense.

In very general terms, the fair value of the interest rate swap is based on the difference between the net present value of projected payments under the fixed rate mortgage, compared to the net present value of projected payments under the floating rate mortgage. During 2008, the fair value of the interest rate swap arrangement decreased by $1,375,631, as declining market interest rates in the fourth quarter of 2008 served to reduce payments for mortgages with floating interest rates.

Although the decrease in the fair value of the interest rate swap has resulted in a corresponding increase in the loss of HREIT, the "decrease in value" is a non-cash expense which is added back for purposes of determining the operating cash flow of the Trust. As a result of fluctuations in market interest rates, the value of the interest rate swap may fluctuate significantly from quarter to quarter, however, the change in value has no impact on cash outflows throughout the entire term of the swap agreement. The change in value provides an indication of the relative benefit of a fixed rate mortgage, compared to a floating rate mortgage, during a specified period of time.

Strategic Review Expense

As previously disclosed, HREIT initiated a strategic review process at the beginning of 2008. Total expenses associated with the strategic review amounted to $1,630,781 in 2008. The strategic review expenses were primarily comprised of the fees of RBC Capital Markets (the financial advisor to the Special Committee) as well as legal fees and costs incurred to obtain/update building condition reports and environmental reports during the sale/merger solicitation process.

Amortization Expense

During 2008, amortization charges increased by $2,768,430 or 14.0%, compared to 2007. The increase in amortization charges mainly reflects incremental amortization charges on 2007 property acquisitions, as well as the $1,346,107 amortization charge to deferred management fees in regard to the reduction in the carrying value of CRESI. After excluding the adjustment of the carrying value of CRESI, amortization expense as a percentage of operating income amounted to 49% in 2008, compared to 46% in 2007.

Income from Discontinued Operations

On September 1, 2008, HREIT sold its interest in the industrial property located at 4080 - 77 Street in Red Deer, Alberta at a net selling price of $8.4 million. The property encompassed 33,280 square feet of leasable area and was fully leased to a single tenant. As part of the purchase and sale agreement, the Trust also earned a lease termination fee of $560,000 from the tenant and was required to prepay $305,000 of first mortgage principal on the loans of other HREIT owned properties. The property was acquired by HREIT in March 2007 for $8,213,000. After repayment of the first mortgage loan, the net cash proceeds on sale were $3.1 million including the lease termination fee proceeds and additional mortgage payment.

On November 1, 2008, HREIT sold its interest in a light industrial property located at 80-88 Fennell Street in Winnipeg, Manitoba at a net selling price of $2.2 million. The property encompassed 40,320 square feet and was 60% occupied by two tenants and was acquired by HREIT in August 2005 for $1.2 million. After repayment of the mortgage loan, the net cash proceeds on sale were $1.3 million.

Comparison to Preceding Quarter

Analysis of Income (Loss) - 2008 Fourth Quarter vs. 2008 Third Quarter

	Three Months Ended December 31, 2008	Three Months Ended September 30, 2008	Effect on Income Increase (Decrease)
Total revenues	$ 20,983,445	$ 18,914,937	$ 2,068,508
Total operating and property management costs	9,818,928	8,121,631	(1,697,297)
Net operating income	11,164,517	10,793,306	371,211
Trust expenses	821,367	630,286	(191,081)
Strategic review expense	382,574	756,572	373,998
Income before financing expense, amortization, discontinued operations and taxes	9,960,576	9,406,448	554,128
Financing expense	8,172,786	6,990,907	(1,181,879)
Income before amortization, discontinued operations and taxes	1,787,790	2,415,541	(627,751)
Amortization	5,364,759	5,117,112	(247,647)
Loss from continuing operations before income tax recoveries/expense	(3,576,969)	(2,701,571)	(875,398)
Income tax recoveries	(1,014,436)	557,011	(1,571,447)
Loss from continuing operations	(4,591,405)	(2,144,560)	(2,446,845)
Income from discontinued operations	916,461	848,793	67,668
	$ (3,674,944)	$ (1,295,767)	$ (2,379,177)

Excluding income tax recoveries and discontinued operations, HREIT incurred a loss of $3,576,969 during the fourth quarter of 2008, compared to a loss of $2,701,571 in the third quarter of 2008 representing an increase in the loss of $875,398. The increase in the loss is mainly due to an increase in financing expense of $1,181,879, of which $970,127 or 82% pertains to a decrease in the carrying value of the interest rate swap agreement, largely offset by an increase in net operating income. The increase in net operating income reflects an improvement in the overall occupancy level of the property portfolio and, in particular, the lease-up of additional space at Cityplace. Other variables which affected the fourth quarter results are as follows:

- strategic review expense decreased by $373,998, primarily due to the termination of the sale/merger solicitation process in October 2008.

- trust expense increased by $191,081 mainly due to an increase in legal fees and a $64,327 third quarter adjustment to accrued liabilities. The increase in legal fees mainly pertains to issues at Cityplace relating to the settlement of a claim in regard to the escrow amounts due to the vendor and the renegotiation of the payment terms of the second mortgage loan.

- an increase in amortization charges of $247,647.

After including income tax recoveries and discontinued operations, HREIT completed the three month period ended December 31, 2008 with a loss of $3,674,944 compared to a loss of $1,295,767 during the third quarter of 2008. Income tax recoveries decreased by $1,571,447 during the fourth quarter. Income from discontinued operations increased by $67,668 during the fourth quarter, and reflects the completed sale of the property in Red Deer.

Summary of Quarterly Results

Quarterly Analysis

	2008			
	Q4	Q3	Q2 (restated)	Q1 (restated)
Total revenue	$ 20,983,445	$ 18,914,937	$ 19,092,175	$ 20,119,559
Operating income	$ 11,164,517	$ 10,793,306	$ 10,469,726	$ 11,042,431
Income (loss) from continuing operations before tax	$ (3,576,969)	$ (2,701,571)	$ (4,634,826)	$ (2,829,875)
Income (loss)	$ (3,674,944)	$ (1,295,767)	$ (2,883,814)	$ (2,034,058)
PER UNIT				
Operating income				
- basic	$ 0.153	$ 0.149	$ 0.145	$ 0.153
- diluted	$ 0.153	$ 0.149	$ 0.145	$ 0.153
Income (loss)				
- basic	$ (0.050)	$ (0.018)	$ (0.040)	$ (0.028)
- diluted	$ (0.050)	$ (0.018)	$ (0.040)	$ (0.028)

Quarterly Analysis

	2007			
	Q4 (restated)	Q3 (restated)	Q2 (restated)	Q1 (restated)
Total revenue	$ 19,859,359	$ 18,833,438	$ 18,081,363	$ 17,408,227
Operating income	$ 11,433,892	$ 11,071,000	$ 10,675,577	$ 9,617,659
Income (loss) from continuing operations before tax	$ (1,599,633)	$ (429,245)	$ (452,626)	$ (966,557)
Income (loss)	$ (673,648)	$ (182,521)	$ 2,347,809	$ (940,336)
PER UNIT				
Operating income				
- basic	$ 0.158	$ 0.154	$ 0.149	$ 0.134
- diluted	$ 0.158	$ 0.154	$ 0.149	$ 0.134
Income (loss)				
- basic	$ (0.003)	$ (0.003)	$ 0.033	$ (0.013)
- diluted	$ (0.003)	$ (0.003)	$ 0.033	$ (0.013)

Notes:

1. The restatement of the quarterly results reflects a reduction to total revenue and operating income for amounts pertaining to discontinued properties.

Total Income/Loss Per Unit

Analysis of income (loss) per unit

	Year Ended December 31		Increase
	2008	2007	(Decrease)
Income (loss) for the period			
- basic	$ (0.136)	$ 0.012	$ (0.148)
- diluted	$ (0.136)	$ 0.012	$ (0.148)
Loss for the period from continuing operations, before income tax recoveries/expense			
- basic	$ (0.190)	$ (0.048)	$ (0.142)
- diluted	$ (0.190)	$ (0.048)	$ (0.142)

Excluding future income tax recoveries and discontinued operations, HREIT incurred a loss of $0.190 per unit during 2008, compared to a loss of $0.048 per unit during 2007. As the number of outstanding units only increased by 0.9% during 2008, on a weighted average basis, the increase in the loss per unit mainly reflects the increase in the overall loss of HREIT during 2008.

BALANCE SHEET

Other Assets

As of December 31, 2008 "other assets", as disclosed on the balance sheet of HREIT amount to $18,506,005. As disclosed in note 6 to the audited financial statements, other assets consists primarily of "amounts receivable" of $7,619,744; a "future income tax asset" of $4,903,609 and "straight line rent receivable" of $3,924,100.

The straight line rent receivable is a function of accrual accounting and the revenue recognition policies of the Trust, while the future income tax asset is an estimated amount which is based on timing difference in the application of tax rates to asset balances.

The amounts receivable of $7,619,744 consists of rents billed to tenants of $2.6 million; accrued operating cost recoveries of $2.3 million and other unbilled amounts recoverable of $2.7 million.

Accounts Payable and Accrued Liabilities

As of December 31, 2008, "accounts payable and accrued liabilities" as disclosed on the balance sheet of HREIT, amount to $17,025,337. As disclosed in note 11 to the audited financial statements, accounts payable and accrued liabilities consist primarily of "accounts payable and accrued liabilities" of $11,601,547, "mortgage and debenture interest payable" of $3,215,054 and "tenant security deposits and prepayments" of $1,450,351.

The accounts payable and accrued liabilities of $11,601,547 consist of trade accounts payable of $7.3 million, the Cityplace purchase price adjustment payable of $1.7 million and tenant inducements payable in three instalments over a period of 21 years of $2.5 million in regard to the new East District Police Station.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash from Operating Activities

Analysis of Cash Provided by Operating Activities

	Year Ended December 31 2008	Year Ended December 31 2007	Increase (Decrease) in Cash
Total revenues	$ 79,110,115	$ 74,182,388	$ 4,927,727
Total operating and property management costs	35,640,136	31,384,260	(4,255,876)
Net operating income	43,469,979	42,798,128	671,851
Non-cash component of revenue	(2,096,668)	(1,591,254)	(505,414)
Net operating income - cash basis (a)	41,373,311	41,206,874	166,437
Trust expense	2,924,225	2,355,393	(568,832)
Non-cash component of trust expense	(328,582)	(58,330)	270,252
Trust expense - cash basis (b)	2,595,643	2,297,063	(298,580)
Strategic review expense (c)	1,630,781	-	(1,630,781)
Cash component of financing expense:			
Mortgage loan interest	20,742,699	18,313,957	(2,428,742)
Interest paid on debentures	4,468,180	3,647,367	(820,813)
Financing expense - cash basis (d)	25,210,879	21,961,324	(3,249,555)
Income tax recovery (expense) (e)	222,146	163,973	58,173
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses (a-b-c-d+e)	12,158,154	17,112,460	(4,954,306)
Lease acquisition costs	(6,797,673)	(5,685,198)	(1,112,475)
Long-term maintenance costs	(2,445,162)	(2,639,211)	194,049
	2,915,319	8,788,051	(5,872,732)
Changes in non-cash operating items	(1,216,693)	1,647,920	(2,864,613)
Cash provided by operating activities	$ 1,698,626	$ 10,435,971	$ (8,737,345)

During 2008, cash from operating activities, excluding changes to non-cash operating items, decreased by $5,872,732 or 67%, compared to 2007. Aside from the increase in amortization expense, which is entirely a non-cash expense, the decrease in cash from operating activities is generally due to the same factors which contributed to the increase in the loss of HREIT during 2008, as follows:

- during 2008, the cash component of financing expense increased by $3,249,555. The cash component of financing expense reflects mortgage loan and convertible debenture interest and is calculated by excluding amortization of transaction costs and mortgage premiums, changes in the value of the "swap asset" and the accretive portion of the debt component of convertible debentures.

  An analysis of the increase in the cash component of financing expense is provided in the analysis of total financing expense in the preceding sections of this report;

- during 2008, the Trust incurred strategic review expenses of $1,630,781, all of which is considered to be an operating cash outlay;

- during 2008, the cash component of trust expense increased by $298,580. The cash component of trust expense is equal to total trust expense, less unit-based compensation expense. The increase in the cash component of trust expenses is mainly due to an increase in the service fee of Shelter Canadian as a result of an increase in the property portfolio;

- as previously disclosed, the net operating income of HREIT increased by $671,851 during 2008, whereas the cash component of net operating income increased by $166,437. The cash component of net operating income is calculated by excluding accrued rental revenue and the net amortization charges for "in place leases" which were above or below market value on property acquisition dates;

  The cash component of net operating income for 2008 reflects a deduction for accrued rental revenue and amortization charges of $2,096,668, compared to a deduction of $1,591,254 for 2007. The increase in the amount deducted mainly reflects an increase in accrued rental revenue due to the requirement under generally accepted accounting principles to record rental revenue on a straight line basis over the term of the lease and the negotiation of new leases with free rent and rent step provisions.

Other factors which affected the change in cash flow from operating activities are the increase in lease acquisition and long term maintenance costs of $918,426 and the increase in income tax recovery of $58,173.

Lease Acquisition Costs

During 2008, lease acquisition costs amounted to $6,797,673, compared to $5,685,198 during 2007. As in 2007, the majority of lease acquisition costs pertain to the properties where a major redevelopment program has been initiated. Specifically, 70% of the lease acquisition costs which were incurred in 2008 pertain to a major redevelopment program at 3 properties.

A summary of lease acquisition costs is provided in the following chart:

Analysis of Lease Acquisition Costs

	2008	2007
Properties undergoing major redevelopment programs		
Cityplace	$ 3,126,224	$ 358,002
Portage Place	1,438,602	1,046,331
330/340 Portage	213,782	102,995
Sub-total	4,778,608	1,507,328
Southland Mall	521,985	1,038,428
555 Madison *	433,114	67,553
Hoka	159,803	5,008
Century Business Park *	115,860	-
Airport Place	114,142	391,220
1336/1340 Sargent *	93,331	339,543
Speedvale	78,410	925,102
Lincoln Centre	62,241	552,122
Other	440,179	858,894
	$ 6,797,673	$ 5,685,198

* The 2008 amounts include $522,798 of lease acquisition costs which were refunded under a head lease.

Long-Term Maintenance Expenditures

During 2008, long-term maintenance expenditures amounted to $2,445,162, compared to $2,639,211 in 2007.

A summary of capital expenditures is provided in the following chart:

Analysis of Capital Expenditures

	2008	2007
330/340 Portage Avenue	$ 1,072,461	$ 509,394
220 Portage	296,998	172,945
Lincoln Centre	295,132	555,019
Chemainus	136,755	63,955
Cityplace	119,828	75,000
Speedvale Centre	43,997	137,138
650 Riverview	40,089	643,821
Other	439,902	481,939
	$ 2,445,162	$ 2,639,211

The expenditure at 330/340 Portage Ave includes $1,031,607 for the completion of HVAC upgrades on six of the 17 floors at the building. The building is being reconditioned from a central heating/air conditioning system to the heat pump system on each floor which will provide better air quality, improved temperature control and energy efficiency. As of December 31, 2008 the HVAC upgrades have been completed on six of 17 floors.

Escrow Funds and Head Lease Payments

A number of the property acquisitions of HREIT have encompassed the escrow accounts for the purpose of funding specific construction or leasehold improvement costs or supplementing the revenue/income of the property, pending the upgrading and re-leasing of specific rental units. In addition HREIT acquired five properties in late 2007 which encompassed the creation of a head lease whereby the vendor undertakes to pay rent for five years on vacant space until responsibility for paying rent is assumed by a bona fide third party tenant. In accordance with the terms of the head lease, the vendor is also responsible to fund a portion of the tenant inducement costs for a third party tenant.

Rental payments and NOI supplements funded from escrow, as well as head lease rent payments, do not have any impact on the revenue or income of HREIT. However, the funds are included as cash inflows for the purpose of calculating Distributable Income and Adjusted Funds from Operations (AFFO). Similarly, amounts released from escrow, as well as amounts received under a head lease, for purposes of funding lease acquisition costs and non-recoverable long-term maintenance expenditures are included as a source of funds in the AFFO calculation and serve to reduce the amount expended on lease acquisition costs and non-recoverable maintenance expenditures for purposes of calculating AFFO. Variations in the amount and the timing of the escrow funds which have been released to HREIT during the period from January 1, 2007 to December 31, 2008 have affected the comparably of distributable income and AFFO.

During 2007, rent payments and NOI supplements released from escrow amounted to $2,309,033 while amounts released from escrow to fund lease acquisition costs and non-recoverable long-term maintenance expenditures amounted to $3,607,241. In comparison, HREIT did not receive any funds from escrow during 2008 as the vendor's responsibility to fund income or tenant inducements have expired.

The reduction in escrow funding during 2008 was partially offset by the commencement of head lease rent payments at four properties in 2008 and the receipt of head lease funding for lease acquisition costs at three properties. In total, head lease rent payments amounted to $443,860 during 2008, while head lease funding for lease acquisition costs amounted to $522,798.

The reduction in FFO, AFFO, and Distributable Income in 2008, compared to 2007, reflects the following impact of escrow funding in 2008.

- although increases in revenue at properties which had income supplements offset the reduction of escrow payments, revenue decreases at other properties diminished revenues overall.
- amounts placed in escrow were insufficient to complete the redevelopment at Portage Place and Southland.

- major redevelopment expenditures in 2008 such as Cityplace were not covered by escrow funds.

A detailed analysis of AFFO and Distributable Income is provided in the following sections of this report.

The majority of escrow funding has occurred for the six properties where a comprehensive redevelopment program has been completed. The reduction in escrow funding reflects the substantial completion of the redevelopment programs at four of the properties prior to 2008 and release of the majority of the escrow funding, prior to 2008, for the two properties where a redevelopment program is in process.

Funds from Operations (FFO)/Adjusted Funds from Operations (AFFO)

HREIT considers "Funds from Operations ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance, as FFO measures the cash generating abilities of HREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions. FFO is calculated in accordance with the recommendations of the Real Property Association of Canada (RealPac).

As disclosed on the following chart, FFO decreased by $7,023,755 or 42% during 2008. compared to 2007, while AFFO decreased by $10,956,312 or 68%. On a per unit basis, FFO decreased by $0.099 per unit, while AFFO decreased by $0.153 per unit.

Funds from Operations/Adjusted Funds from Operations

	Year Ended December 31	
	2008	2007
Income (loss)	$ (9,888,625)	$ 879,706
Add (deduct):		
Amortization expense - continuing operations	22,511,084	19,742,654
Amortization expense - discontinued operations	186,324	215,233
Future income taxes	(1,687,718)	(3,831,891)
Gain on sale of asset	(1,282,794)	(143,676)
Funds from operations as defined by RealPac (FFO)	**9,838,271**	**16,862,026**
Rent payments and NOI supplements funded from escrow	-	2,309,033
Funded by Headlease	443,860	-
Subtotal	**10,282,131**	**19,171,059**
Add (deduct):		
Non cash component of revenue - continuing operations	(2,096,668)	(1,591,254)
- discontinued operations	(92,067)	(107,178)
Change in fair value of swap asset	1,375,631	(7,010)
Unit based compensation	328,582	58,330
Accretion	1,914,058	1,408,946
Lease acquisition costs	(6,797,673)	(5,685,198)
Non-recoverable long-term maintenance expenditures	(198,215)	(660,047)
Lease acquisition and non-recoverable long-term maintenance expenditures:		
Funded from escrow	-	3,607,241
Funded from Headlease	522,798	-
Adjusted funds from operations (AFFO)	$ 5,238,577	$ 16,194,889
Funds from operations per unit		
- basic	$ 0.136	$ 0.235
- diluted	$ 0.136	$ 0.235
AFFO per unit		
- basic	$ 0.072	$ 0.226
- diluted	$ 0.072	$ 0.226

* Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are not defined by GAAP and are non-GAAP financial measures of operating performance which are widely used by the real estate industry. FFO has been calculated in accordance with the recommendations of Real Property Association of Canada ("RealPac"). FFO per unit and AFFO per unit have been calculated on a basis which is consistent with the method prescribed by GAAP for calculating earnings per unit. FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP. The method that is used by HREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Distributable Income

Under the Declaration of Trust, HREIT is required to distribute an amount which is not less than the taxable income of HREIT in each taxation year. Subject to this minimum, Cash Distributions may also be established at a specific level, as determined by the Trust and, as such, distributions may exceed Distributable Income, or, as occurred in October 2008, distributions may be suspended.

Distributable Income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of Distributable Income provides useful information to investors. Distributable Income does not have any standardized meaning prescribed by GAAP and, therefore, the method that is used by HREIT for calculating Distributable Income may not be comparable to similar measures presented by other issuers. The most directly comparable GAAP measurement of the cash flows of HREIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash from operating activities and Distributable Income is provided in the following chart.

Reconciliation Between Distributable Income and Cash From Operating Activities

	Year Ended December 31	
	2008	2007
Net cash from operating activities, per Statement of Cash Flow	$ 1,698,626	$ 10,435,971
Add (deduct)		
Cash flow from discontinued operations before amortization and gain on sale	848,282	271,777
Change in non-cash operating items	1,216,693	(1,647,920)
Long-term maintenance expenditures	2,445,162	2,639,211
Lease acquisition costs	6,797,673	5,685,198
Amortization of lease acquisition costs	(1,576,453)	(1,458,307)
Amortization of mortgage premiums	111,122	117,541
Rent payments and NOI supplements:	-	-
Funded from escrow	-	2,309,033
Funded by Head Lease payments	443,860	-
	-	-
Distributable Income	$ 11,984,965	$ 18,352,504
Per unit		
- Basic	$ 0.165	$ 0.256
- Diluted	$ 0.165	$ 0.256

HREIT excludes changes in non-cash operating items from its calculation of distributable income as non-cash operating items are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Distributable Income decreased by $6,367,539 or 35%, during 2008, compared to 2007. In general, the decrease in distributable income reflects the decrease in cash from operations, before changes in non-cash operating items, and the decrease in funds released from escrow in regard to revenue/income supplements.

Financing Activities

Summary

During 2008, the net cash inflow for financing activities was $5,264,670. Financing activities consisted primarily of transactions related to mortgage loan financing/repayments and cash distributions.

Mortgage Loan Financing

During 2008, the gross proceeds from new mortgage loan financing amounted to $60,135,000 of which $7,300,000 represents "interim financing", $12,500,000 represents the financing arranged for the new East District Police Station at 1750 Dugald Rd and $40,335,000 represents the proceeds from the upward refinancing of existing mortgage loans. A detailed analysis of the mortgage loan debt of HREIT is provided in this report in the discussion of "Capital Resources and Liquidity".

Mortgage Loan Debt Repayments

During 2008, mortgage loan principal repayments amounted to $38,474,272, of which $8,264,459 represents regular monthly repayments; and $30,209,813 represents the amount retired on the upward refinancing of existing mortgage loans. After considering the retirement of existing debt, the net proceeds from the upward refinancing of debt in 2008 was $10,125,187.

Distributions

Prior to the suspension of distributions in October 2008, the distribution policy of HREIT was to pay distributions on a monthly basis. A distribution of $0.02333 per unit per month, or $0.28 on an annualized basis, was declared for each of the months of January 2008 to September 2008, inclusive. The total cash distributions for the nine month period ended September 30, 2008 was $15,198,398, of which $495,651 was reinvested in units (317,369 units in total) under the Distribution Reinvestment Plan. In October 2008, the distribution policy was revised and distributions were suspended.

Cash Distribution Shortfall

As disclosed in the following summary, the total distributions of HREIT exceeded Distributable Income by $(3,213,433), cash from operating activities, by $(13,499,772) and AFFO by $9,694,426.

	Year Ended December 31	
	2008	2007
Total distributions	$ 15,198,398	$ 20,141,386
Distributable Income	$ 11,984,965	$ 18,352,504
Excess of distribution over distributable income	$ 3,213,433	$ 1,788,882
Cash provided by operating activities	$ 1,698,626	$ 10,435,971
Excess of distributions over cash provided by operating activities	$ 13,499,772	$ 9,705,415
Adjusted funds from operations	$ 5,238,577	$ 16,194,889
Excess of distributions over adjusted funds from operations	$ 9,959,821	$ 3,946,497

As previously discussed, HREIT generated cash from operating activities of $1,698,626 during 2008, while regular monthly mortgage repayments amounted to $8,264,458. During 2008, the net proceeds from the upward refinancing of existing debt of $10,125,187 was sufficient to fully fund regular monthly mortgage payments.

Accordingly, in 2008, the cash from operating activities served to fund a portion of the monthly distributions. The shortfall between cash from operating activities and total distributions of $13,499,771 in 2008 was funded from capital raised from mortgage financing and cash flow from discontinued properties.

Investment Activities

Summary

During 2008, the net cash outflow in regard to investment activities amounted to approximately $12.1 million comprised of additional expenditures on properties under development of $9,350,852 and additions to income properties of $2,969,136, partially offset by a net refund of deposits of $200,000 of deposits refunded.

Additions to Properties Under Development

The cash outlay in regard to properties under development of $9,350,852 is comprised of $9,281,937 in construction costs to complete the new East District Police Station at 1750 Dugald Rd in Winnipeg, Manitoba, and $68,915 of operating costs for the two properties held for development.

The cumulative cost of the new East Disctrict Police Station was reclassified in the third quarter of 2008, upon the substantial completion of the property and the designation of the building as an income-producing property.

Additions to Building and Equipment

During 2008, the cash outlay for building and equipment amounted to $2,969,136, as disclosed in the following chart:

Asset Additions

		Year Ended December 31, 2008
Cityplace - refund of escrow to vendor	$	2,288,383
Portage Place - construction costs		588,244
Legal fees and other acquisition costs related to 2007 acquisitions incurred in 2008		92,509
Cash outlay	$	2,969,136

In December 2008, it was determined that future NOI supplements were not receivable by Cityplace and a refund of escrow in the amount of $2,288,383 was returned to the vendor. The original building cost was adjusted by the $2,288,383 refund.

Discontinued Operations

During 2008, the net cash flow from discontinued operations amounted to $4,649,945. The net cash flows consists of the net proceeds from the sale of the two industrial properties, as well as the cash flow from operations, net of debt service payments, from the two properties, prior to the sale date.

Cash Flow Summary

A summary of the cash flows of HREIT are provided in the following chart. As disclosed in the chart, the net cash inflow from financing activities exceeded the net cash outflow from investing activities, excluding distributions, by approximately $7.8 million during 2008.

After providing for the cash inflow from operating activities and from discontinued operations and the cash outflow from distributions, the net cash decrease for 2008 was $506,747. After accounting for the opening cash balance of $12,366,739, HREIT completed 2008 with a cash balance of $11,859,992.

Cash Flow Analysis

	Year Ended December 31	
	2008	2007
Financing Activities:		
Mortgage proceeds	$ 60,135,000	$ 34,182,632
Proceeds of convertible debenture	-	48,300,000
Proceeds of unit issues	-	10,000,080
Debt paid on refinancing	(30,209,813)	(33,882,470)
Transaction Costs	(1,566,722)	(3,228,356)
Issue costs	(48,263)	(1,030,553)
Units acquired and cancelled	(78,327)	-
Mortgage principal payments	(8,264,459)	(5,504,158)
Total financing	19,967,416	48,837,175
Investing Activities:		
Property acquisitions	-	(32,426,123)
Asset additions	(2,969,136)	(11,736,248)
Property under development	(9,350,852)	(3,542,726)
Deposits on potential acquisitions	-	(200,000)
Deposits refunded	200,000	100,000
Total investing	(12,119,988)	(47,805,097)
Net cash inflow of investment capital	7,847,428	1,032,078
Discontinued operations	4,649,945	(1,483,761)
Operating activities	1,698,626	10,435,971
Cash distributions	(14,702,747)	(19,767,194)
Net cash inflow (outflow)	**(506,748)**	**(9,782,906)**
Cash, beginning of period	**12,366,739**	**22,149,645**
Cash, end of period	**$ 11,859,991**	**12,366,739**
Analysis of cash components		
Cash in escrow	3,699,887	4,788,546
Unrestricted cash	8,160,104	7,578,193
	$ 11,859,991	**12,366,739**

The preceding cash flow analysis represents the re-formatting of balances from the Consolidated Statement of Cash Flows in the financial statements in order to provide Unitholders with an analysis of the net inflow/outflow of investment capital, before considering the impact of operating activities, discontinued operations and cash distributions. The components of financing activities, investing activities, operating activities and discontinued operations, as disclosed in the analysis, agree to the Consolidated Statement of Cash Flows with the exception of cash distributions which are excluded from financing activities and disclosed as a separate line item. The order of presentation of financing, investing, discontinued operations and operating activities also differs from the Consolidated Statement of Cash Flows, in order to derive the sub-total entitled "net inflow (outflow) of investment capital". Cash in escrow has also been deducted from the ending cash balance for purposes of disclosing the amount of unrestricted cash as of December 31, 2008. Aside from the exclusion of cash distributions from financing activities and the sub-totals entitled "net inflow (outflow) of investment capital" and "uninvested cash", the analysis consists entirely of GAAP measurements.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

Capital Structure - December 31, 2008

	December 31, 2008	Percentage
Mortgage loans payable - principal amount	$ 342,394,765	59.3 %
Convertible debentures - face value	58,871,000	10.2 %
Equity - trust units (net of issue costs)	176,513,094	30.5 %
Total capitalization	$ 577,778,859	100.0 %

Trust units:	
Authorized	Unlimited
Issued	
- December 31, 2008	72,589,214

Mortgage Loans Payable

December 31, 2008	$340,271,219
December 31, 2007	$319,083,730

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2008	Percentage of Total
2009	7.39 %	$ 84,413,787	24.65 %
2010	7.13 %	34,747,284	10.15 %
2011	5.36 %	34,993,145	10.22 %
2012	5.68 %	40,558,585	11.85 %
2013	5.97 %	27,861,789	8.14 %
2014	7.10 %	4,396,460	1.28 %
2015	5.24 %	23,602,850	6.89 %
2016	5.97 %	63,151,676	18.44 %
2017	5.72 %	9,454,243	2.76 %
2018	5.65 %	1,478,530	0.43 %
2025	5.89 %	5,236,416	1.53 %
2039	5.45 %	12,500,000	3.66 %
Principal amount		342,394,765	100.00 %
Transaction costs		(2,223,659)	
Mortgage premiums		100,113	
Net payable amount, December 31, 2008		$ 340,271,219	

Several of HREIT's mortgages include covenants which require the mortgaged property to maintain income in excess of the debt service by a specified ratio. As of December 31, 2008, The Winnipeg parking lot properties at 351 Smith Street (loan balance $1,129,643 due October 3, 2012) and Water and Westbrook (loan balance $1,596,234 due October 3, 2012) did not satisfy such covenants.

Under GAAP, the failure to meet such covenants requires the mortgage loan to be treated as current or repayable within one year. The above schedule reflects these mortgages as due on the contractual due date of October 3, 2012.

The Declaration of Trust limits the total amount of the mortgage indebtedness of the Trust to 75% of the appraised value of the properties of the Trust. As of December 31, 2008, HREIT is in compliance with this requirement.

The balance of mortgage loans payable, as of December 31, 2008, excluding mortgage premiums and transaction costs, increased by $21,660,729, compared to the balance as of December 31, 2007. The increase is comprised of the following amounts:

	Year Ended December 31 2008
Upward financing - existing properties	$ 40,335,000
Retirement of refinanced first mortgage loans	(30,209,813)
	10,125,187
East District Police Station financing	12,500,000
Interim financing	7,300,000
Principal portion of regular monthly payments	(8,264,458)
Total	$ 21,660,729

The weighted average interest rate of the entire portfolio of mortgage loans was 6.28% as of December 31, 2008, compared to 6.46% as of December 31, 2007.

Special Debt Provisions

Vendor Take-Back Financing

The acquisition of Cityplace in June 2006 encompassed a $4 million second mortgage loan at an interest rate of 6%. The loan does not require monthly payments as the loan was originally repayable in lump-sum installments of $2 million, plus accrued interest, on each of June 30, 2008 and June 30, 2009, however, the payment due on June 30, 2008 has been extended to June 30, 2009.

The acquisition of the portfolio of 11 properties which were acquired in the third quarter of 2007 encompassed a $4.3 million second mortgage loan at an interest rate of 5%. The loan requires payments of interest only and matures July 19, 2012.

Interim Mortgage Loan Financing

HREIT utilizes short-term mortgage loan financing as a source of interim financing. The "interim" mortgage loan financing is typically secured by second mortgages registered against one or more properties and typically encompasses "interest-only" payments for a term of one to two years.

As of December 31, 2008, the interim loan financing of HREIT amounted to $23,900,000, representing an increase of $7,300,000 in comparison to the amount of interim financing as of December 31, 2007. The weighted average interest rate of the interim loans was 11.18% as of December 31, 2008, compared to 11% as of December 31, 2007.

A summary of the maturity dates for the interim loans is provided in the following schedule.

Maturity Date	Amount
September 2009 (1)	7,500,000
September 2009	3,800,000
December 2009	8,600,000
December 2009 (2)	4,000,000
	23,900,000

All of the interim loans are "interest only" and do not require payments of principal.

(1) As of Decemer 31, 2008, the loan was due March 1, 2009. The loan was renewed for a six month term to September 1, 2009 at an interest rate of 12%. The refinanced loan requires principal payments of $50,000 per month plus interest.

(2) At December 31, 2008, the loan was due January 1, 2009. The loan was renewed for an eleven month period to December 1, 2009 at an interest rate of 11.75%. The refinanced loan requires principal payments of $40,000 per month plus interest.

Mortgage Loan Debt Ratio

The ratio of mortgage loans payable, relative to the gross book value of the property portfolio, was 60% as of December 31, 2008, compared to 59% as of December 31, 2007. The increase in the debt ratio reflects an increase in mortgage loan financing which was not offset by asset purchases.

Debt Ratio, Including Debenture Debt

The ratio of mortgage loans payable and debenture debt, at face value, compared to the gross book value of the property portfolio, was 70% as of December 31, 2008, compared to 70% as of December 31, 2007.

Convertible Debentures

A summary of the debenture offerings which have been undertaken by HREIT since its inception date as a publicly listed entity, is provided in the following chart.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	December 31, 2008 Conversion Price	Net Amount Outstanding December 31, 2008
March 22/05/March 22/10 *	A	8.0 %	$ 2.55	$ 5,250,000
June 29/05/June 29/10	B	8.0 %	3.65	5,321,000
March 29/07/March 31/12	C	7.5 %	3.05	48,300,000
Face value of convertible debentures, December 31, 2008				58,871,000
Net accumulated accretion				3,937,154
Unamortized transaction costs				(1,987,610)
Book value of convertible debentures, December 31, 2008				$ 60,820,544
Allocation of book value:				
Debt component				$ 52,215,646
Equity component				10,592,508
Unamortized transaction costs				(1,987,610)
				$ 60,820,544

* The original issue was $6,000,000. The amount outstanding as of December 31, 2008 reflects the conversion of $750,000 in debentures on January 11, 2008.

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments and is carried in the account, net of transaction costs. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating the cash flow, distributable income, and AFFO.

The allocation of the debt and equity component, for each debenture issue, is provided in Note 11 of the audited financial statements.

Trust Units

Summary

A summary of the units, which have been issued by HREIT, and the total gross and net trust unit equity raised, is provided below, commencing as of December 31, 2006.

Issue Date	Description	Units Issued	Gross Equity Raised
Units outstanding, December 31, 2006		67,691,485	$ 177,665,194
January 17, 2007	Units issued	4,166,700	10,000,080
January to December 2007	Units issued under DRIP *	156,950	374,192
Total - December 31, 2007		72,015,135	188,039,466
	Units issued on conversion of debentures	294,117	768,250
January to December 2008	Units issued under DRIP	317,369	495,651
January to December 2008	Units acquired and cancelled	(37,407)	(78,327)
		72,589,214	189,225,040
Gross equity raised, per above			189,225,040
Less: Issue costs			(12,711,946)
Total "Trust unit" equity per statement of equity			$ 176,513,094

* In accordance with the "Distribution Reinvestment Plan" of HREIT, Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount. Participants in the DRIP may also purchase additional units on a distribution payment date. The purchase price of the units will generally be equal to the weighted average closing price of the units for the five trading days immediately preceding the relevant distribution payment date.

Unit Option Plan

As of December 31, 2008, HREIT had granted options to acquire a total of 2,533,000 units, of which 102,000 were exercised and 677,000 expired. All unit-based compensation related to options were fully expensed as of December 31, 2008. There were no options exercised during 2008. Subsequent to December 31, 2008, options for 377,000 units at a weighted average price of $2.68 have expired.

Deferred Unit Plan

As previously disclosed, HREIT issued 422,158 deferred units to independent trustees as payment of their 2008 compensation. Deferred units are essentially redeemable upon the resignation of the trustee. There were no deferred units redeemed during 2008.

Unitholder Rights Plan

In October 2008, HREIT adopted a Unitholder Rights Plan whereby all Unitholders, as of the close of business on October 22, 2008 have the right to acquire additional units at a substantial discount upon the occurrence of a "triggering event." In general terms, a "triggering event" is the acquisition by any person or group of related persons to gain control of the Trust by acquiring 20% or more of the outstanding units. A summary of the Unitholder Rights Plan is provided in the Annual Information Form, a copy of which is available on the SEDAR website at www.sedar.com.

Normal Course Issuer Bids

Units

In January, 2008, HREIT implemented a normal course issuer bid under which it is entitled to acquire up to 5% of the issued and outstanding units of the Trust. Subsequent to December 31, 2008, the term of the normal course issuer bid was extended to January 22, 2010. Purchases under the normal course issuer bid are made at market prices through the facilities of the Toronto Stock Exchange. Any units purchased by HREIT are cancelled.

HREIT believes that the ongoing purchase of units, pursuant to the bid, is an appropriate use of HREIT's resources, given the disparity between the market price of the units and the underlying value of the units, as determined by HREIT. HREIT also believes that the purchase of units pursuant to the bid will benefit all remaining Unitholders by increasing their proportionate equity interest and voting interest in HREIT while affording liquidity to Unitholders.

During 2008, the Trust acquired 37,407 units under the normal course issuer bid, at a weighted average cost of $2.094 per unit or $78,327 in total. As of March 24, 2009 there have been no purchase of units by HREIT in 2009. All acquired units have been cancelled.

Debentures

Effective January 14, 2009, HREIT also implemented a normal course issuer bid for its 7.50% Series C Debentures over the 12 month period ending January 16, 2010 for up to an aggregate of $4,830,000 principal amount, representing 10% of the issued and outstanding debentures. Purchases of debentures are also made at market prices through the facilities of the Toronto Stock Exchange and debentures purchased by HREIT will be cancelled.

As of March 24, 2009, no debentures have been acquired by HREIT.

Capital Requirements

During 2008, HREIT generated cash from operating activities of approximately $2 million, after the funding of approximately $9.2 million of lease acquisition and maintenance costs. Excluding distributions, the main non-operating funding "requirements" of HREIT in 2008 were regular monthly mortgage principal payments of approximately $8.3 million and additions to building and equipment of approximately $3 million. In 2008, the regular monthly mortgage principal payments and the additions to building and equipment were primarily funded from the proceeds of mortgage loan financing.

The projected funding requirements of HREIT for 2009, for lease acquisition and maintenance costs, mortgage principal payments, capital expenditures, and other expenditures are discussed in the following section of this report.

Contractual Obligations

Long-term Debt and Lease Payments

A summary of the long-term debt and operating lease obligations of HREIT for 2009 and for each of the next five years and thereafter, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt and Lease Payments

Payments Due by Period	Total	< 1 Year	2 - 3 Years	4 - 5 Years	> 5 Years
Mortgage loans	$ 342,394,765	$ 93,380,642	$ 77,601,143	$ 66,104,544	$ 105,308,436
Operating leases	573,003	199,983	373,020	-	-
Land lease obligation	22,971,628	469,524	939,048	939,048	20,624,008
	$ 365,939,396	$ 94,050,149	$ 78,913,211	$ 67,043,592	$ 125,932,444

The mortgage loan payments in less than one year of $93,380,642 per the preceding chart, includes $2,752,877 of mortgage loans which are treated as current for GAAP purposes (see Mortgage Loans Payable); $6,213,978 of regular monthly principal payments and $84,413,787 of debt which matures in 2009.

The nature of such maturing debt and the current status is summarized in the following chart:

Type of Loan	Balance December 31, 2008	Weighted Average Interest Rate	Status
Fixed or floating rate loans with regular monthly payments (excluding Cityplace debt) (Note 1)	$ 56,513,787	5.88 %	To be renewed, refinanced or upward refinanced under similar terms and conditions. $14,656,405 renewed to date.
Vendor take-back loan for Cityplace	4,000,000	6.00 %	Due in full on June 30, 2009. To be repaid from Cityplace sale proceeds assuming that the sale is completed.
Interim mortgage loans	23,900,000	11.18 %	$11,500,000 renewed to date. To be repaid from Cityplace sale proceeds assuming that the sale is completed.
	$ 84,413,787	7.39 %	

Notes

1. Monthly payments for the floating interest loans are subject to periodic adjustment, based on market interest rates. Amount includes $19,274,273 in loans which are subject to an annual review.

During 2008, total debt service costs on mortgage loan debt amounted to $29,007,158, comprised of $20,742,699 in mortgage loan interest and $8,264,459 of regular monthly principal repayments. On a monthly average basis, the total debt service costs in 2009 were approximately $2.4 million per month.

In 2009, "regular" debt service costs are expected to remain at approximately $29.0 million for the entire portfolio. Monthly debt service costs will, therefore, remain at approximately $2.4 million per month, pending the paydown of debt from the net sales proceeds of Cityplace. Thereafter, total monthly debt service costs are expected to be reduced to approximately $1.9 million per month.

Leasehold Improvement and Major Renovation/Upgrades

As disclosed in the 2007 Annual Report, the total funding commitments of HREIT, for leasehold and long-term maintenance costs in 2008, amounted to approximately $6.5 million, of which approximately 74% or $4.8 million pertained to seven properties which were undergoing a major capital replacement or improvement program, including $1.7 million of improvements at Cityplace.

As previously disclosed, actual leasehold improvement and long-term maintenance costs amounted to $8.8 million during 2008. The variance between actual and projected costs is mainly due to the completion of leasehold and property improvements at Portage Place and Southland Mall to a greater extent than was anticipated.

During 2009, the Trust is committed to incur approximately $8.65 million of lease acquisition and maintenance costs pursuant to the terms of lease agreements and other commitments. The total commitment of approximately $8.65 million is comprised of the following amounts:

280 Broadway	Landlord work and leasehold inducements	4,250,000
Portage Place	Urban Planet tenant inducement	870,000
	Site development	1,070,000
330/340 Portage	HVAC upgrade program	1,260,000
Various	Roof replacement programs	1,200,000
		8,650,000

Other projected leasehold improvements and long term maintenance programs that are not associated with major projects and are not committed at this time are budgeted at $3.35 million for a total expenditure in 2009 of $12 million.

280 Broadway

Details of the upgrade program have been discussed in the 2009 lease expiry section of the report.

330/340 Portage Avenue

As previously noted on HVAC upgrade program is underway at 330/340 Portage Avenue. The 2009 expenditure provides for the completion of four floors and for the retrofit of the chiller equipment which services the building. It is anticipated that the HVAC upgrade program will be completed on ten floors of the 17 floors at December 31, 2009.

Capital Expenditures

During 2009, cash outlays for capital expenditures are not anticipated. Capital expenditures are non-recoverable expenditures which are disclosed as "additions to building and equipment" on the Consolidated Statements of Cash Flows, in comparison to "long-term maintenance costs" which, in general terms, are recoverable from tenants, subject to the terms of specific leases and the leasing of the space to which the costs pertain.

Purchase Price Adjustment

As disclosed in the 2007 Annual Report, the purchase agreement for Cityplace encompassed a potential price increase in the event that actual income from three parking lots for the year ending November 30, 2008 exceeded predetermined levels. A specific amount for the potential price increase was not disclosed in the 2007 financial statements, as the amount of the potential price increase could not be reasonably estimated.

During the third quarter of 2008, sufficient reliable information was available to estimate the amount payable. Specifically, based on the actual operating results of Cityplace to September 30, 2008, it was estimated that the purchase price of Cityplace would increase by $1.3 million. The estimated price increase was accrued under "Accounts Payable and Accrued Liabilities" with a corresponding increase in the recorded amount for Building and Fixtures. During the fourth quarter of 2008, the estimated price increase was revised to $1.7 million based on the actual income to November 30, 2008.

Sources of Capital

Existing Capital

As of December 31, 2008, the working capital balance of HREIT is $5,271,337, while the total cash balance is $11,859,992. After deducting escrow and reserve deposits, the unrestricted cash balance of the Trust is approximately $8.2 million as of December 31, 2008. As approximately $5.0 million of the unrestricted cash balance pertains to the operating cash balances at the individual properties, the cash "available" for other purposes is approximately $3.2 million.

The escrow and reserve deposits are comprised of the following amounts:

Amounts designated for the funding of construction and tenant acquisition costs	$ 1,195,472
Deposits to secure letters of credit	349,000
Amounts reserved pursuant to loan agreements to fund capital improvements	1,330,415
Other	825,000
	$ 3,699,887

Cash from Operating Activities

As previously disclosed, there was a shortfall between cash from operating activities and mortgage loan principal payments of $6,565,832 in 2008. During 2009, the shortfall is expected to diminish as a result of the following factors:

- the elimination of strategic review expenses; and
- a significant reduction in the interest expense due to the paydown of higher interest rate debt from the proceeds of the Cityplace sale.

Proceeds from Property Sales

As previously disclosed, the sale of Cityplace for gross proceeds of $81.5 million is expected to result in net proceeds of approximately $24.3 million after retiring the Cityplace mortgage financing. The net proceeds are to be used to retire higher interest interim mortgage financing. HREIT will consider selling additional properties in 2009. The net proceeds from additional property sales, if any, may be used to reduce debt.

Refinancing of Under-Leveraged Properties

As opportunities arise, first mortgage loans may be upward refinanced at maturity in order to raise additional capital.

Debenture and/or Trust Unit Offerings

From a longer term perspective, HREIT also has the capability of pursuing additional debenture or trust unit offerings as a source of investment capital. HREIT may also exchange trust units for real property acquisitions.

Net Financing Requirements

Based on the preceding discussion, the capital requirements of HREIT, for 2009, are as follows:

Regular principal and interest payments	$	29,400,000
Capital expenditures		-
Purchase price adjustment - Cityplace		1,670,000
Lease acquisition and maintenance costs		12,000,000
	$	43,070,000

It is anticipated that HREIT will generate sufficient cash from operating activities in 2009 to fund the lease acquisition and maintenance costs. The proceeds from the sale of Cityplace and, possibly other properties, combined with the existing "available" cash reserves and the proceeds from upward refinancing of existing debt are expected to be sufficient to fund the remaining capital requirements.

The upward refinancing potential of the property portfolio in 2009 is estimated to be in the range of $10 million to $15 million.

COMMITMENTS AND CONTINGENCIES

Centre Square

An option has been granted to a tenant of Centre Square to acquire 10,172 square feet of the building, representing one floor of the eight floor condominium property. The tenant has exercised the option, however, the negotiation of the purchase price has not commenced.

Legal and Other Claims

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited

Asset and Property Management Services

Shelter Canadian provides administrative and asset management services to HREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is commensurate with customary comparable market asset management fees, as approved by the Governance, Compensation and Nominating Committee of the Board of Trustees. The Governance, Compensation and Nominating Committee is comprised of all of the independent Trustees of HREIT.

Commencing January 1, 2006, the Committee approved a monthly service fee equal to 0.3% of the net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The existing fee arrangement is continued on a month to month basis. Payment of the fee occurs on a monthly basis, on the last day of each month. During 2008, the fee amounted to $1,686,534.

Shelter Canadian is also the Property Manager for HREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of HREIT and acts as Asset Manager and Property Manager for the majority of the properties. The on-site property management function is sub-contracted for certain properties in order to maintain continuity between the tenants and the incumbent Property Manager or due to such factors as the remoteness of the property location or the nature of the acquisition process. As indicated in note 25 of the financial statements, total property management leasing and other fee payments to Shelter Canadian were $2,527,727 during 2008. The current term of the property management agreement expires on February 23, 2010.

Mr. Arni Thorsteinson, the President and Chief Executive Office of HREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd.

Consolidated Real Estate Services Inc. (CRESI)

Shelter Canadian provides executive management services to CRESI, with executive personnel of Shelter Canadian acting in the capacity of President and Vice President of CRESI and serving as directors, and with a senior employee of Shelter Canadian fulfilling the position of the Regional Manager for the Western Canada commercial property portfolio of CRESI.

Other Shelter Canadian employees provide assistance to CRESI in various capacities, including supervision of website design services provided by a third party contractor, website maintenance, supervision of payroll and benefit administration, operating policy development, placement and administration of property insurance and marketing. For providing the additional services, Shelter Canadian receives an annual cost recovery fee of $150,000 per annum.

The Guelph office of CRESI provides accounting services in regard to 14 condominium properties managed by Shelter Canadian, the cost of which is reimbursed. During 2008, the cost of services reimbursed was $49,642

Development of East Disctrict Police Station in Winnipeg

The new East District Police Station in the HREIT property portfolio was constructed by Bird Construction Income Fund (Bird Construction) at a fixed price of $12.5 million, with Shelter Canadian acting as the property developer. The fixed price of $12.5 million includes a development fee to Shelter Canadian in the amount of $200,000. The development/construction was a joint submission to the City of Winnipeg by Bird Construction and Shelter Canadian, as a private developer and the asset manager of HREIT. Although Mr. Arni Thorsteinson and Mr. Greg Doyle serve on the Board of Trustees of Bird Construction, the construction contract is not a related party transaction under GAAP.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards Adopted January 1, 2008

On January 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA).

In general, the new accounting standards address disclosure requirements concerning risk management policies and practices employed by management to control risk associated with capital and financial instruments

Management of Capital

In accordance with the new standard, the Trust is required to disclose objectives, policies and processes for managing capital: the nature of capital employed in the business and the existence of any external requirements: and compliance with such requirements. The disclosures required by the new standard are provided in note 27 of the financial statements.

Financial Instrument Risk Management

In accordance with the new standard, The Trust is required to enhance its disclosure regarding financial instruments and, in particular, the disclosure regarding the nature and the extent of the risks arising from financial instruments and the management of the risks by the Trust. The disclosures required by the new standards are provided in note 26 of the financial statements.

Future Changes to Accounting Standards

Goodwill and intangible assets

In February 2008, the CICA issued a new Handbook Sections: Section 3064, "Goodwill and Intangible Assets." Section 3064 replaces CICA 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 1000 Financial Statement Concepts has also been amended to be consistent with the new standard. The accounting standard is to be applied no later than the fiscal years beginning on or after October 1, 2008 (i.e., the Trust's 2009 fiscal year).

In summary, an expenditure may only be capitalized if it meets the definition of an assets as reflected in the new standard. Commencing January 1, 2009, the Trust will no longer be able to record deferred charges for long term maintenance expenditures which are recoverable from tenants over a period of years. Instead the Trust will be required to capitalize the expenditures to income properties or expense the expenditure in the period incurred.

A summary of the impact of the change is provided in Note 2 to the financial statements.

International Financial Reporting Standards

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The International Financial Reporting Standards will replace Canada's current GAAP for public companies.

Management is currently in the process of evaluating the potential impact of the International Financial Reporting Standards to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board and the CICA. The consolidated financial performance and financial position, as disclosed in the current GAAP financial statements, may be significantly different when presented in accordance with International Financial Reporting Standards.

The CICA has provided public companies with the option to early adopt International Financial Reporting Standards, effective January 1, 2009. The Trust does not intend to early adopt these standards on January 1, 2009.

Business Combinations

In January 2009, the CICA Accounting Standards Board issued three new Handbook Sections; Handbook Section 1582: Business Combinations; Handbook Section 1601: Consolidations and Handbook Section 1602: Non Controlling Interests

Handbook Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after the begriming of the first annual reporting period begriming on or after January 1, 2011. Handbook Sections 1601 and 1602 will be effective for interim and annual financial statements relating to fiscal years begriming on or after January 1, 2011. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements and establish standards for the accounting for a business combination, standards for the accounting for a business combination and standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Management is currently considering the effect of the new standards on the financial statements of the Trust.

OPERATING RISKS AND UNCERTAINTIES

An investment in HREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust. A detailed summary of the risks associated with an investment in HREIT is provided in the Annual Information Form, a copy of which is available on the SEDAR website at www.sedar.com.

Certain risks include the following:

General

The properties of HREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. A reduction in demand would affect both the rental revenues of the income properties and the management fees of CRESI.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. The financial condition of HREIT would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which HREIT will have an interest was not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to HREIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the investment may be incurred by HREIT. Furthermore, at any time, a tenant of any of the properties of HREIT may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to HREIT. The ability to rent unleased space in the properties in which HREIT will have an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the financial condition of HREIT.

In order to minimize the general market risk and achieve stable or increasing average rental rates combined with acceptable occupancy levels, HREIT focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. HREIT further decreases its operating risk through property and geographic diversification, diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements. The risk of credit loss is also mitigated by limiting exposure to any one tenant. As disclosed in the Revenue Analysis in this Report, revenues for the Province of Manitoba and The Government of Canada represent 10.79% and 6.79% of total revenues. No other tenants revenue represent greater than 3% of total revenues.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charged must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If HREIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the ability of HREIT to vary its portfolio promptly in response to changing economic or investment conditions. If HREIT were to be required to liquidate its real property investments, the proceeds to HREIT might be significantly less than the aggregate carrying value of its properties.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk, and the return on an investment in units is based on many performance assumptions. As noted earlier, the cash distribution was suspended in October 2008. There is no assurance that HREIT will resume cash distributions.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of HREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of HREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of HREIT.

Future Acquisitions

The continued growth of HREIT will depend on management's ability to identify opportunities for future property acquisitions, to acquire the properties and to successfully integrate the acquired properties. Management's ability to generate growth from property acquisitions may be affected by cost of acquisitions, financing of the acquisitions, unexpected liabilities with regard to the properties and other problems related to the integration of the properties. The inability to grow through future property acquisitions could adversely affect HREIT's financial condition and ability to generate cash flow from operations.

Concentration of HREIT's Portfolio in One Market

The property portfolio of HREIT has significant exposure to the commercial real estate market in Winnipeg, Manitoba, primarily in the industrial and office sectors.

As of December 31, 2008, the percentage of properties located in Winnipeg is as follows:

	Percentage of Total Acquisition Costs	Percentage of Total Leasable Space
Office	83.7%	83.5%
Industrial	52.2%	60.5%
Retail	5.2%	8.2%
Total	50.2%	50.1%

Changes to Tax Treatment of Trusts

HREIT currently qualifies as a "mutual fund trust" for income tax purposes. As required by its Declaration of Trust, HREIT is required to distribute an amount equal to not less than all of its taxable income to its Unitholders and to deduct these distributions for income tax purposes.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of SIFT's received by a Unitholder that are not deductible to the SIFT will be treated as dividends payable to the Unitholder and distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, HREIT may increase its equity capital by $50 million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, HREIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. Accordingly, HREIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, HREIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, HREIT will consider its alternatives, including restructuring its affairs to qualify as a Qualifying REIT. However, no assurances can be given that any reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to HREIT and its Unitholders. In addition, no assurance can be given that HREIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

Relationship with Shelter Canadian

The financial performance of HREIT will depend in part on the performance of Shelter Canadian in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Reliance on Key Personnel

The success of HREIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on HREIT.

Other

Other risks and uncertainties are more fully explained in the other regulatory filings of HREIT, including the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies of HREIT are disclosed in note 2 of the audited financial statements for the year ended December 31, 2008. The application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- the allocation of the purchase price of properties among the various assets acquired based on estimated replacement costs at the date of purchase and deducting the estimated depreciation based on an estimate of the renewing useful life of the property acquired;
- the recoverability of operating costs and taxes which are subject to confirmation with the tenant;
- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating future income tax assets and liabilities;
- the allocation of convertible debentures between debt and equity based on the estimated fair value of the debt; and
- the establishment of value of unit options granted.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

TAXATION

Taxation of HREIT

HREIT is generally subject to tax in Canada under the Income Tax Act (The "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by HREIT for tax purposes.

Pursuant to the Declaration of Trust of HREIT, the Trustees are required to distribute or designate all taxable income directly earned by HREIT to the Unitholders of the Trust in order to ensure that HREIT will not be subject to income tax under Part I of the Tax Act.

Taxation of Unitholders

A Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of HREIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires HREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders, since the inception of HREIT as a real estate investment trust in 2005, have exceeded the income of HREIT, as calculated for income tax purposes. Distributions in excess of the taxable income of HREIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS AND PROCEDURES

For the fiancial year-end December 31, 2008, the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), together with other members of management, have evaluated the design and operational effectiveness of HREIT's disclosure controls and procedures, as defined in Multilateral Instruments 52-109. The Certifying Officers have concluded that the disclosure controls and procedures are designed to ensure that information is accumulated and communicated to management, to allow timely decisions regarding required disclosures.

The internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. The Certifying Officers, together with other members of management, have evaluated and concluded that the design and operation of HREIT's internal controls over financial reporting are effective for the financial year-end December 31, 2008.

No changes were made to the design of the internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to HREIT is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2008 Annual Report of HREIT, including Schedule I , and the delivery of the report to the Unitholders have been approved by the Trustees.

HUNTINGDON REAL ESTATE INVESTMENT TRUST
March 24, 2009

HUNTINGDON REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS - 2008

SCHEDULE I

Real Estate Portfolio as of December 31, 2008

Property	Location	Purchase Price (1)	Acquisition Date	Leasable Area (Sq. Ft.) (3)	Occupancy 09/30/08
Light Industrial					
1935 Sargent Ave. (2)	Winnipeg, MB	$ 8,130,000	February 2005	113,864	100 %
130 Lowson Cres.	Winnipeg, MB	1,650,000	March 2005	25,672	100 %
891/895 Century St.	Winnipeg, MB	1,650,000	April 2005	51,835	90 %
119/130 Plymouth (4)	Winnipeg, MB	1,900,000	May 2005	43,364	100 %
1300 Church Ave.	Winnipeg, MB	1,250,000	May 2005	40,600	100 %
110 Lowson Cres.	Winnipeg, MB	2,800,000	May 2005	60,903	100 %
650 Riverview Drive	Chatham, ON	8,950,000	July 2005	286,570	100 %
110 Henderson Drive	Regina, SK	2,900,000	September 2005	101,360	100 %
5404-36th Street	Calgary, AB	2,400,000	December 2005	36,000	100 %
505 Industrial Drive	Milton, ON	16,250,000	May 2006	258,960	100 %
Marion Street (4)	Winnipeg, MB	2,829,000	June 2006	82,851	97 %
Airport Place (3)	Winnipeg, MB	6,250,000	March 2007	333,824	92 %
7001 - 96th Street	Grande Prairie, AB	7,955,000	March 2007	33,280	100 %
35 Martin Way	Brooks, AB	3,522,000	March 2007	28,400	100 %
1950 Sargent Ave. (2)	Winnipeg, MB	2,850,000	March 2007	37,887	100 %
61 - 155 Paramount Road (3)	Winnipeg, MB	3,074,537	March 2007	82,049	97 %
60 - 94 Hoka Street (3)	Winnipeg, MB	795,191	March 2007	26,738	83 %
1271 Sargent Ave.	Winnipeg, MB	2,600,000	June 2007	40,893	100 %
1855 Sargent	Winnipeg, MB	2,500,000	August 2007	77,500	100 %
2595 McGillivray (7)	Winnipeg, MB	3,600,000	August 2007	73,808	100 %
1695 Sargent (7)	Winnipeg MB	3,875,000	August 2007	48,860	100 %
Total Light Industrial		87,730,728		1,885,218	98 %
Retail					
Westwood Mall	Thompson, MB	1,986,700	March 2005	53,996	97 %
Southfort Square	Fort Sask., AB	1,700,000	April 2005	33,508	88 %
Vista Landing	Calgary, AB	8,300,000	June 2005	62,099	98 %
Northgate (3)	Winnipeg, MB	5,550,000	June 2005	119,033	98 %
Chemainus Properties (4)	Chemainus, BC	4,208,400	August 2005	35,397	97 %
Cumbria Centre	Spruce Grove, AB	2,143,900	August 2005	21,193	54 %
125-185 First St. E.	Cochrane, AB	2,799,000	August 2005	15,757	100 %
Westland Plaza	Okotoks, AB	2,898,300	August 2005	13,839	100 %
Charleswood Square	Winnipeg, MB	3,444,200	August 2005	34,069	69 %
1250 Steeles Ave. E	Brampton, ON	6,500,000	September 2005	50,056	100 %
Crossroads Centre (5)	London, ON	25,351,700	September 2005	193,873	49 %
Lincoln Centre	Welland, ON	6,000,000	September 2005	171,669	91 %
Portage Place (5)	Peterborough, ON	29,146,238	September 2005	223,385	86 %
Speedvale Centre (5)	Guelph, ON	14,621,500	September 2005	116,868	93 %
Suncoast Mall	Goderich, ON	12,500,000	September 2005	160,379	94 %
Southland Mall (5)	Winkler, MB	9,000,000	September 2005	182,854	81 %
Humboldt Mall	Humboldt, SK	3,500,000	September 2005	105,801	85 %
Willowcreek Centre	Peterborough, ON	7,000,000	September 2005	64,265	95 %
Flin Flon Wal-Mart	Flin Flon, MB	5,875,000	October 2005	63,439	100 %
Deer Park	Red Deer, AB	11,600,000	October 2005	57,806	100 %
Harbour View Village	Kenora, ON	1,250,000	November 2005	12,464	82 %
Douglasview Centre	Calgary, AB	3,600,000	March 2006	17,104	89 %
Airport Road	Yellowknife, NWT	5,300,000	June 2006	15,474	100 %
Total Retail		174,274,938		1,824,328	86 %
Sub-total		262,005,666		3,709,546	92 %

Balance forward		262,005,666		3,709,546	92 %
Office					
1000 Waverley Street	Winnipeg, MB	5,250,000	May 2005	59,429	100 %
330/340 Portage Avenue	Winnipeg, MB	13,000,000	May 2005	152,915	95 %
1189 Colonel Sam Dr.	Oshawa, ON	16,900,000	July 2005	103,179	100 %
114 Garry Street	Winnipeg, MB	5,600,000	August, 2005	74,248	100 %
Centre Square	Yellowknife, NWT	13,000,000	August, 2005	92,331	97 %
Saskatchewan Place	Regina, SK	7,400,000	February 2006	82,321	94 %
280 Broadway Avenue	Winnipeg, MB	11,000,000	March 2006	117,354	100 %
Medical Arts Building	Winnipeg, MB	14,050,000	April 2006	109,104	84 %
Cityplace (5) (6)	Winnipeg, MB	78,614,560	June 2006	453,186	89 %
67 Scurfield	Winnipeg, MB	3,850,000	June 2007	25,745	100 %
Winnipeg Parking Lots (4)	Winnipeg, MB	8,750,857	July 2007	-	100 %
220 Portage Avenue (3)	Winnipeg, MB	10,230,000	July 2007	84,922	99 %
365 Hargrave	Winnipeg, MB	8,761,362	July 2007	71,784	100 %
Century Business Park (4) (7)	Winnipeg, MB	9,061,000	August 2007	70,254	85 %
1336/1340 Sargent (4)	Winnipeg, MB	3,325,000	August 2007	42,092	100 %
1030 & 1040 Empress (4)	Winnipeg, MB	3,075,000	August 2007	33,478	100 %
220 Cree (7)	Winnipeg, MB	1,150,000	August 2007	18,000	100 %
555 Madison (7)	Winnipeg, MB	2,414,000	August 2007	18,462	81 %
895 Waverley	Winnipeg, MB	5,300,000	December 2007	34,435	100 %
1750 Dugald	Winnipeg, MB	12,500,000	September 2007	33,000	100 %
Total Office		233,231,779		1,676,239	93 %
Subtotal - continuing operations		495,237,445		5,385,785	92 %
Property Under Development					
Willowcreek Land (8)	Peterborough, ON	6,000,000	September 2005		
Flin Flon Lot 2 (9)	Flin Flon, MB	300,000	September 2007		
		6,300,000			
Total properties		501,537,445			
Other					
CRESI	Calgary, AB	2,850,000	March 2005		
Total real estate investments at original purchase price (Note 1)		$ 504,387,445			

Notes to Real Estate Portfolio:

(1) The purchase price is exclusive of legal fees, land transfer tax and closing costs and adjustments. The purchase price is subject to change based on adjustments which may occur subsequent to the closing date of acquisition.
(2) The property acquired is a leasehold interest.
(3) For jointly owned properties, leasable area is calculated to equal the total leasable area of the property multiplied by the percentage of ownership as follows: a 25% undivided interest in 61 - 155 Paramount Road (328,195 square feet) and 60 - 94 Hoka Street (106,953 square feet); and a 50% interest in Airport Place (667,648 square feet); Northgate Shopping Centre (229,206 square feet) and 220 Portage Avenue (169,844 square feet).
(4) Multi-property acquisitions include 119/130 Plymouth Avenue (two properties); the Chemainus Properties (four properties), Marion Street Business Park (three properties), Century Business Park (three properties), 1336/1340 Sargent (two properties), 1030/1040 Empress (two properties) and Winnipeg Parking Lots (four properties).
(5) The purchase price of Crossroads Centre, Speedvale Centre, Southland Mall, Portage Place, and Cityplace has increased from previous reports to reflect contingent purchase consideration or purchase price adjustments of $96,700, $562,500, $2,575,500, $2,146,238, and $1,674,477 respectively.
(6) The purchase price is net of escrow funds of $2,020,156 from which HREIT received rent/income supplement payments in regard to vacant space. (Please refer to Effect of Cash in Escrow in Annual Comparison.)
(7) HREIT receives rent and HREIT receives rent/income supplements in regard to vacant space in accordance with a head lease from the vendor. Occupancy rates are 100% with head lease tenancies.
(8) As part of the purchase of a portfolio of properties in September 2005, HREIT acquired 12.8 acres of vacant land adjacent to the Willowcreek Shopping Centre. The land was allocated a value of $6 million and was originally included in the purchase price of the Willowcreek Shopping Centre.
(9) Consists of 0.9 acres of vacant land adjacent to the Flin Flon Wal-Mart.

MANAGEMENT'S RESPONSIBILITY

The financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Huntingdon Real Estate Investment Trust. To fulfill this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial reports. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best estimates and judgment in the circumstances.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are engaged to audit the financial statements in accordance with Canadian generally accepted auditing standards and provide an independent auditor's opinion.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Larry J. Beeston"

Larry J. Beeston
Chief Financial Officer

March 24, 2009

Scarrow & Donald LLP

SCARROW & DONALD LLP
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March 19, 2009

AUDITORS' REPORT

To the Unitholders of
Huntingdon Real Estate Investment Trust:

We have audited the consolidated balance sheets of Huntingdon Real Estate Investment Trust as at December 31, 2008 and 2007 and the consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED BALANCE SHEETS

	December 31 2008	December 31 2007
Assets		
Income properties (Note 3)	**$438,747,709**	$442,932,477
Deferred charges (Note 4)	**43,144,674**	32,260,853
Cash (Note 5)	**11,859,992**	12,366,739
Other assets (Note 6)	**18,506,005**	15,716,910
Intangible assets (Note 7)	**9,525,373**	12,921,391
Assets of discontinued operations (Note 8)	**-**	9,446,510
Acquisition asset (Note 9)	**33,202,847**	34,005,840
	$554,986,600	$559,650,720
Liabilities and Equity		
Mortgage loans payable (Note 10)	**$340,271,219**	$319,083,730
Accounts payable and accrued liabilities (Note 11)	**17,025,338**	12,771,621
Convertible debentures (Note 12)	**50,228,036**	48,386,668
Intangible liabilities (Note 13)	**1,503,173**	2,226,976
Liabilities of discontinued operations (Note 8)	**-**	6,620,796
Acquisition liability (Note 9)	**33,202,847**	34,005,840
	442,230,613	423,095,631
Equity	**112,755,987**	136,555,089
	$554,986,600	$559,650,720

Approved by the Board of Trustees

"Arni C. Thorsteinson"

"Greg Doyle"

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31	
	2008	2007
Revenue		
Rentals from income properties (Note 14)	$ 75,164,850	$ 69,739,064
Interest and other income	860,785	1,448,361
Property management revenue	3,084,480	2,994,963
	79,110,115	74,182,388
Expenses		
Property operating costs	32,590,393	28,672,229
Property management costs	3,049,743	2,712,031
	35,640,136	31,384,260
Operating income	43,469,979	42,798,128
Financing expense (Note 15)	30,147,130	24,138,997
Trust expense	2,924,225	2,355,393
Strategic review expense	1,630,781	-
Amortization	22,511,084	19,742,654
	57,213,220	46,237,044
Income (loss) from continuing operations before taxes	(13,743,241)	(3,438,916)
Income tax recovery (Note 16)	1,909,864	3,755,864
Income (loss) from continuing operations	(11,833,377)	316,948
Income from discontinued operations (Note 8)	1,944,752	562,758
Income (loss) and comprehensive income (loss)	$ (9,888,625)	$ 879,706
Income (loss) per unit (Note 19)		
Basic and diluted		
Continuing operations	$ (0.163)	$ 0.004
Discontinued operations	0.027	0.008
Total	(0.136)	0.012

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31 2008	Year Ended December 31 2007
Trust units (Note 20)		
Balance, beginning of period	$175,375,783	$166,032,064
Issuance of trust units		
For cash	-	10,000,080
Conversion of debentures	768,250	-
Dividend reinvestment plan	495,651	374,192
Issue costs	(48,263)	(1,030,553)
Trust units acquired and cancelled	(78,327)	-
Balance, end of period	176,513,094	175,375,783
Unit based compensation (Notes 21 and 22)		
Balance, beginning of period	237,120	178,790
Value associated with unit options granted	10,609	58,330
Value associated with expired unit options	(19,380)	-
Value of deferred units	317,973	-
Balance, end of period	546,322	237,120
Equity component of convertible debentures (Note 12)		
Balance, beginning of period	10,770,480	2,686,432
Equity component of convertible debentures	-	8,084,048
Conversion of debentures	(177,972)	-
Balance, end of period	10,592,508	10,770,480
Cumulative earnings and total accumulated comprehensive earnings		
Balance, beginning of period	2,269,847	459,431
Value associated with swap mortgage adjustment	-	863,435
Value associated with expired unit options	19,380	-
Implementation of accounting policy change	-	67,275
Income (loss)	(9,888,625)	879,706
Balance, end of period	(7,599,398)	2,269,847
Cumulative distributions to unitholders		
Balance, beginning of period	(52,098,141)	(31,956,755)
Distribution to unitholders	(15,198,398)	(20,141,386)
Balance, end of period	(67,296,539)	(52,098,141)
Total unitholders' equity	$112,755,987	$136,555,089
Units issued and outstanding (Note 20)	72,589,214	72,015,135

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2008	Year Ended December 31 2007
Cash provided by (used in) operating activities		
Income (loss) from continuing operations	$ (11,833,377)	$ 316,948
Items not affecting cash		
Accrued rental revenue (Note 14)	(1,805,925)	(955,939)
Amortization of above market in place leases (Note 7 and 14)	433,060	508,517
Amortization of below market in place leases (Note 13 and 14)	(723,803)	(1,143,832)
Amortization	22,511,084	19,742,654
Change in fair value - swap asset (Note 6 and 11)	1,375,631	(7,010)
Amortization of mortgage premiums (Note 10)	(111,122)	(117,541)
Amortization of transaction costs	1,757,684	893,278
Unit-based compensation (Notes 20, 21 and 22)	328,582	58,330
Future income taxes (Note 16)	(1,687,718)	(3,591,891)
Accretion of the debt component of convertible debentures (Note 12 and 15)	1,914,058	1,408,946
	12,158,154	17,112,460
Expenditures on lease acquisition costs	(6,797,673)	(5,685,198)
Expenditures on maintenance costs	(2,445,162)	(2,639,211)
Changes in non-cash operating items	(1,216,693)	1,647,920
	1,698,626	10,435,971
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	60,135,000	34,182,632
Proceeds of convertible debentures (Note 12)	-	48,300,000
Proceeds from unit issues (Note 20)	-	10,000,080
Debt repaid on refinancing	(30,209,813)	(33,882,470)
Expenditures on transaction costs	(1,566,722)	(3,228,356)
Issue costs	(48,263)	(1,030,553)
Debt principal repaid	(8,264,458)	(5,504,158)
Trust units acquired and cancelled	(78,327)	-
Distributions paid	(14,702,747)	(19,767,194)
	5,264,670	29,069,981
Cash provided by (used in) investing activities		
Income properties acquired (Note 23)	-	(32,426,123)
Additions to properties under development	(9,350,852)	(3,542,726)
Additions to building and equipment	(2,969,136)	(11,736,248)
Deposits on potential acquisitions	-	(200,000)
Deposits refunded	200,000	100,000
	(12,119,988)	(47,805,097)
Sub-total	(5,156,692)	(8,299,145)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2008	2007
Balance forward	(5,156,692)	(8,299,145)
Cash provided by (used in) discontinued operations (Note 8)		
Cash flow from operations	688,525	515,008
Expenditures on deferred financing charges	-	(24,730)
Debt principal paid	(169,041)	(180,020)
Proceeds of sale	4,130,461	431,281
Discontinued income properties acquired (Note 23)	-	(2,225,300)
	4,649,945	(1,483,761)
Change in cash	(506,747)	(9,782,906)
Cash, beginning of period	12,366,739	22,149,645
Cash, end of period	$ 11,859,992	$ 12,366,739

Supplementary cash flow information		
Interest paid on mortgage financing	$ 20,082,094	$ 15,529,948
Interest paid on debentures	$ 4,496,427	$ 2,741,742
Income taxes recovered	$ 222,146	$ 163,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1 *Organization*

Huntingdon Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust dated January 10, 2005.

2 *Significant accounting policies*

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned subsidiary, Consolidated Real Estate Services Inc. and the proportionate share of assets, liabilities, revenues and expenses of properties owned through a co-ownership arrangement.

Change in accounting policy
On January 1, 2008, the Trust adopted CICA Handbook, Section 1535 - Capital Disclosures, Section 3862 - Financial Instruments - Disclosures and Section 3863 - Financial Instruments - Presentation. Section 1535 requires the Trust to disclose information which enable users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital. Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standards have no impact on the classification or measurement of financial instruments.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

Management has determined that significant items subject to such estimates include the allocation of the purchase price of properties; the recoverability of operating costs and property taxes and the remaining useful life of capital assets acquired.

Income properties
Income properties include land and buildings and fixtures of the real estate investments and furniture and equipment of Consolidated Real Estate Services Inc.

Income-producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income-producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings and fixtures is recorded on a straight-line basis over the remaining useful life (12 to 55 years).

Amortization on furniture and equipment is recorded on a straight-line basis over five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

2 *Significant accounting policies (continued)*

Deferred charges
Deferred charges include lease acquisition costs (tenant inducements and leasing expenses), and maintenance expenditures. Lease acquisition costs are deferred and amortized on a straight-line basis over the term of the respective leases. Maintenance expenditures are amortized on a straight line basis over the period during which they are recovered from tenants or, if the expenditure is not recoverable, over the estimated useful life.

In accordance with Canadian generally accepted accounting principles a portion of the purchase price on the purchase of a rental property shall be allocated to deferred charges to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in place leases. Similarly, a portion of the purchase price of Consolidated Real Estate Services Inc. has been allocated to deferred charges to reflect the value of in place management contracts.

Intangible assets and liabilities
In accordance with Canadian generally accepted accounting principles, a portion of the purchase price of a rental property shall be allocated to intangible assets and intangible liabilities to reflect the cost of lease origination costs; tenant relationships; above market leases and below market leases. Intangible assets and liabilities are amortized over the term of the tenant leases.

Discontinued operations
A property is classified by the Trust as held for sale on the consolidated balance sheets when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and net realizable value, less selling costs. No amortization is recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes and has been reported in discontinued operations.

Derivative financial instruments
Derivative financial instruments are utilized to reduce interest rate risk on the Trust's debt. The Trust does not enter into financial instruments for trading or speculative purposes.

Interest rate swap agreements are used as part of the Trust's program to manage the fixed and floating interest rate mix of the Trust's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the related debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

Gains and losses on terminations of interest rate swap agreements are deferred and recorded as other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishments of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of operations at the time of extinguishment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

2 ***Significant accounting policies (continued)***

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 12. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

Revenue recognition
Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs and property taxes are recognized as revenues during the period in which the applicable costs are incurred. Interest revenue is recognized on a time proportion basis. Property management revenue is recognized as services are provided in accordance with the management contracts.

Income taxes
The Trust uses the liability method of accounting for income taxes where by the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

The Trust follows taxation rules for a mutual fund trust for Canadian income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust shall distribute its income for income tax purposes each year by an amount which is sufficient to ensure that the Trust will not be liable for income taxes under Part I of the Income Tax Act. As a result, there were no future income tax assets or liabilities to be recognized from operations of the Trust.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trust was substantially enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of SIFTS received by Unitholders that are not deductible to the SIFT will be treated as dividends payable to Unitholders. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT.

As the Trust does not currently meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status, notwithstanding the intent of the Trust to become a Qualifying REIT prior to 2011.

Consolidated Real Estate Services Inc., a wholly owned subsidiary of the Trust is an operating business and provides for income tax expense using the liability method as noted above.

2 *Significant accounting policies (continued)*

Net income per unit
Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Unit options
The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized when unit options are granted. On the exercise of unit options, consideration received and the accumulated unit option value is credited to the Trust units. Awards of options related to private placement or public offerings of units are treated as unit issue costs.

Financial instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment. The Trust does not reclassify a financial instrument into or out of the held-for-trading category while it is held or issued except in rare circumstances.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

2 *Significant accounting policies (continued)*

Financial instruments (continued)

The Trust has designated its financial instruments as follows:

Financial Statement Item	Classification	Measurement
Cash	Held-for-trading	Fair value
Other assets:		
Amounts receivable	Loans and receivables	Amortized cost
Future rent receivable	Loans and receivables	Amortized cost
Interest rate swap	Held-for-trading	Fair value
Acquisition asset	Held-to-maturity	Amortized cost
Mortgage loans payable	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost
Acquisition liability	Other financial liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

The Trust assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as default of delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

Future changes to significant accounting policies

(a) CICA Handbook Section 3064

CICA Handbook Section 3064 - Goodwill and Intangibles will be effective for interim and annual financial statements of the Trust for periods beginning after January 1, 2009. Section 1000, Financial Statement Concepts has also been amended to be consistent with this standard. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit oriented enterprises.

In summary, an expenditure may only be capitalized if it meets the definition of an asset as reflected in the new standard. Commencing January 1, 2009, the Trust will no longer be able to record deferred charges for long term maintenance expenditures which are recoverable from tenants over a period of years. Instead the Trust will be required to capitalize the expenditures to income properties or expense the expenditure in the period incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

2 *Significant accounting policies (continued)*

Future changes to significant accounting policies (continued)

(a) **CICA Handbook Section 3064 (continued)**

The Trust will be required to restate the 2008 quarterly and annual financial statements to reflect the following:

Balance Sheet		Increase (Decrease)
Income properties	$	6,111,995
Deferred charges	$	(5,723,188)
Equity	$	388,807
Income Statement		
Operating costs	$	149,533
Amortization	$	(477,349)
Income and comprehensive income	$	327,816
Income per unit - basic and diluted	$	0.005

(b) **International Financial Reporting Standards**

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis.

The Trust is currently considering the effect of the above changes on the financial statements.

(c) **Business Combinations**

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The Trust is currently considering the effect of the above changes on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

3 *Income properties*

December 31, 2008	Cost	Accumulated Amortization	Net book Value
Land	$ 66,238,691	$ -	$ 66,238,691
Buildings and fixtures	399,302,019	(33,268,199)	366,033,820
Furniture and equipment	210,140	(177,959)	32,181
Properties under development	6,443,017	-	6,443,017
	$472,193,867	$ (33,446,158)	$438,747,709

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Land	$ 65,543,691	$ -	$ 65,543,691
Buildings and fixtures	389,227,944	(21,453,834)	367,774,110
Furniture and equipment	201,506	(142,443)	59,063
Properties under development	9,555,613	-	9,555,613
	$464,528,754	$ (21,596,277)	$442,932,477

Amortization of income properties consists of the following:

	Year Ended December 31	
	2008	2007
Buildings and fixtures	$ 11,814,365	$ 10,661,437
Furniture and equipment	35,516	38,868
	$ 11,849,881	$ 10,700,305

4 *Deferred charges*

December 31, 2008	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 28,738,229	$ (10,110,920)	$ 18,627,309
Leasing expenses	6,272,952	(2,357,181)	3,915,771
Management fees	3,915,222	(2,913,883)	1,001,339
	38,926,403	(15,381,984)	23,544,419
Lease acquisition costs	17,299,604	(3,422,537)	13,877,067
Maintenance expenditures	7,182,982	(1,459,794)	5,723,188
	$ 63,408,989	$ (20,264,315)	$ 43,144,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

4 *Deferred charges (continued)*

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 20,218,129	$ (7,170,289)	$ 13,047,840
Leasing expenses	5,472,052	(1,576,688)	3,895,364
Management fees	3,915,222	(1,232,897)	2,682,325
	29,605,403	(9,979,874)	19,625,529
Lease acquisition costs	10,501,931	(1,846,084)	8,655,847
Deferred maintenance costs	4,719,361	(739,884)	3,979,477
	$ 44,826,695	$ (12,565,842)	$ 32,260,853

Amortization of deferred charges consists of the following:

	Year Ended December 31	
	2008	2007
Amounts recorded on acquisitions		
Tenant inducements	$ 2,940,631	$ 3,255,442
Leasing expenses	780,493	752,011
Management fees (a)	1,680,758	223,616
	5,401,882	4,231,069
Lease acquisition costs	1,576,453	1,458,307
Maintenance expenditures	719,910	441,461
	$ 7,698,245	$ 6,130,837

(a) During the period ended December 31, 2008, several property management agreements were terminated resulting in an adjustment to the estimated useful life of the deferred management fees and a $1,346,107 adjustment to amortization expense.

5 *Cash*

Cash includes cash in escrow and cash reserve deposits as follows:

Purpose of Escrow/Reserve	December 31 2008	December 31 2007
Construction and tenant acquisition costs	$ 1,195,472	$ 1,319,340
Revenue or income supplement	-	1,828,157
Capital improvement reserves	1,330,415	1,342,049
Deposits to secure letters of credit	349,000	299,000
Other	825,000	-
	$ 3,699,887	$ 4,788,546

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

6 *Other assets*

	December 31 2008	December 31 2007
Amounts receivable	$ 7,619,744	$ 6,174,442
Amounts receivable - property management	-	16,251
Future income tax asset (Note 16)	4,903,609	3,591,891
Interest rate swap	-	870,445
Prepaid expenses	808,811	529,306
Future rent receivable	1,249,741	2,216,400
Deposits on potential acquisitions	-	200,000
Straight line rent receivable	3,924,100	2,118,175
	$ 18,506,005	$ 15,716,910

Interest Rate Swap
The Trust has entered into an interest rate swap arrangement whereby the interest rate on a floating rate mortgage has been fixed for the term of the mortgage.

The interest rate swap is a derivative financial instrument and is recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. Included in financing expense is a charge of $1,375,631 related to the change in value of the interest rate swap for the period ended December 31, 2008 (2007 - $7,010 increase). (Note 11)

Future Rent Receivable
In accordance with the purchase and sale agreement for Century Business Park, 555 Madison, 220 Cree, 1695 Sargent and 2595 McGillivray; the vendor is responsible for paying future rents until responsibility for paying rent is assumed by a bona fide tenant. In this regard, $2,216,400 of the purchase price was allocated to future rent receivable to reflect the estimated rent receivable from the vendor.

7 *Intangible assets*

December 31, 2008	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 12,799,196	$ (6,760,728)	$ 6,038,468
Tenant relationships	3,378,725	(2,080,410)	1,298,315
	16,177,921	(8,841,138)	7,336,783
Above market in-place leases	4,042,039	(1,853,449)	2,188,590
	$ 20,219,960	$ (10,694,587)	$ 9,525,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

7 ***Intangible assets (continued)***

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 12,799,196	$ (4,841,732)	$ 7,957,464
Tenant relationships	3,378,725	(1,036,447)	2,342,278
	16,177,921	(5,878,179)	10,299,742
Above market in-place leases	4,042,039	(1,420,390)	2,621,649
	$ 20,219,960	$ (7,298,569)	$ 12,921,391

Amortization of intangible assets consists of the following:

	Year Ended December 31 2008	2007
Lease origination costs	$ 1,918,995	$ 2,238,189
Tenant relationships	1,043,963	673,322
	2,962,958	2,911,511
Above market in-place leases	433,060	508,517
	$ 3,396,018	$ 3,420,028

Amortization of the above market in-place leases is charged to rentals from income properties.

8 ***Discontinued operations***

On April 20, 2007, the Trust sold its interest in 550 Saskatchewan Avenue, Portage la Prairie, Manitoba, a vacant retail property for gross proceeds of $460,000 resulting in a gain on sale of $143,676. The property was previously included under retail and Manitoba for segmented reporting purposes.

On September 1, 2008, the Trust sold its interest in 4080 - 77 Street, Red Deer, Alberta, in response to an unsolicited offer for gross proceeds of $8,400,000 resulting in a gain on sale of $293,735. As part of the purchase and sale agreement, the Trust also earned a lease break fee of $560,000 from a tenant. The property was previously included under light Industrial and Alberta for segmented reporting purposes.

On November 1, 2008 the Trust sold its interest in 80/88 Fennell Street, Winnipeg, Manitoba in response to an unsolicited offer for gross proceeds of $2,200,000 resulting in a gain on sale of $989,059. The property was previously included under light Industrial and Manitoba for segmented reporting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

8 *Discontinued operations (continued)*

The following table discloses the balance sheet and statement of income for discontinued operations.

	December 31 2008	December 31 2007
Balance sheets		
Assets		
Income properties	$ -	$ 8,279,129
Deferred charges	-	942,201
Other assets	-	187,233
Intangible assets	-	37,947
	-	9,446,510
Liabilities		
Mortgage loans payable	-	6,554,084
Accounts payable and accrued liabilities	-	66,712
	-	6,620,796
Net investment in properties held for sale	$ -	$ 2,825,714

	Year Ended December 31 2008	Year Ended December 31 2007
Statements of income		
Rentals from income properties	$ 1,423,629	$ 1,243,602
Interest and other income	25,980	4,308
Expenses		
Property operating costs	229,525	184,835
Financing expense	355,080	423,890
Trust expense	16,722	4,870
Amortization	186,324	215,233
Gain on sale	1,282,794	143,676
Income from discontinued operations	$ 1,944,752	$ 562,758

9 *Acquisition asset and liability*

In accordance with the purchase and sale agreement for City Place, the vendor was responsible for the defeasance of existing debt. In this regard, the debt was assumed by 1252229 Alberta Ltd. which owns sufficient Government of Canada bonds to meet the debt obligation. The Government of Canada bonds have been placed in escrow with Computer Share Trust Company of Canada, an agent of the debt holder. In accordance with Canadian generally accepted accounting principles, the bonds and debt obligations of 1252229 Alberta Ltd. have been identified on acquisition of the property and have been included in the accounts of the Trust as HREIT Holdings 33 Corporation (formerly 2017166 Ontario Limited), the bare trustee which holds title to City Place, remains the debtor on the loan documents. The respective asset and liability will be reduced on a monthly basis at the same rate as the debt is amortized until April 1, 2010 at which time the debt will be extinguished.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	December 31 2008	December 31 2007
First mortgage loans bearing interest at fixed rates between 4.84% and 8.28% (2007 - 4.84% and 8.28%) with a weighted average interest rate of 6.08% (2007 6.13%) and maturing between March 1, 2009 and February 1, 2025 (2007 - February 1, 2008 and February 1, 2025) with a weighted average term to maturity of 4.60 years (2007 - 5.12 years).	$264,681,870	269,763,726
First mortgage loans bearing interest at floating rates between 3.50% and 5.50% (2007 - 6.50% and 7.60%) with a weighted average interest rate of 5.01% (2007 - 7.31%) and maturing between November 1, 2009 and January 1, 2039 (2007 - January 1, 2008 and January 1, 2012) with a weighted average term to maturity of 9.81 years (2007 - 1.41 years).	42,932,212	22,170,310
Subtotal - fixed and floating first mortgage loans with a weighted average interest rate and term to maturity of 5.93% and 5.33 years respectively (2007 - 6.22% and 4.84 years).	307,614,082	291,934,036
Second mortgage loans bearing interest at fixed rates between 5.00% and 11.50% (2007 - 5% and 11%) with a weighted average interest rate of 9.37% (2007 - 8.51%) and maturing between January 1, 2009 and July 19, 2012 (2007 - January 1, 2008 and July 19, 2012) with a weighted average term to maturity - 0.88 years (2007 - 1.34 years).	34,780,683	24,800,000
11% Third mortgage loan	-	4,000,000
	342,394,765	320,734,036
Transaction costs	(2,223,659)	(1,861,541)
Mortgage premiums	100,113	211,235
	$340,271,219	$319,083,730

The weighted average interest rate for the aggregate loan balance is 6.28% (2007 - 6.46%), and the weighted average term to maturity is 4.88 years (2007 - 4.53).

Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization. Mortgage premiums are amortized over the term of the respective mortgage (Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

10 *Mortgage loans payable (continued)*

The Trust is required to maintain debt service ratios for some loans in the mortgage loan portfolio. As of December 31, 2008, the Trust did not meet the debt service ratio for two loans in the aggregate amount of $2,752,877. Although, these loans are treated as demand loans and are reflected as repayable in 2009 in the following calculation, it is anticipated that the lender will permit the mortgage to be repaid in accordance with the originally agreed terms.

Future payments, excluding amortization of mortgage premiums and transaction costs are as follows:

Year Ending December 31	
2009	$ 93,380,642
2010	39,324,283
2011	38,276,860
2012	38,135,869
2013	27,968,675
Thereafter	105,308,436
	$342,394,765

Mortgage loans are secured by mortgage charges registered against the title of specific income properties, assignments of book debts, assignments of rents and repayment guarantees.

11 *Accounts payable and accrued liabilities*

	December 31 2008	December 31 2007
Accounts payable and accrued liabilities	$ 11,601,547	$ 8,391,502
Mortgage and debenture interest payable	3,215,054	2,855,675
Tenant security deposits and prepayments	1,450,351	850,359
Future income tax liability (Note 16)	253,200	629,200
Capital loan	-	44,885
Interest rate swap	505,186	-
	$ 17,025,338	$ 12,771,621

Interest Rate Swap
The Trust has entered into an interest rate swap arrangement whereby the interest rate on a floating rate mortgage has been fixed for the term of the mortgage.

The interest rate swap is a derivative financial instrument and is recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. Included in financing expense is a charge of $1,375,631 related to the change in value of the interest rate swap for the period ended December 31, 2008 (Note 6).

Tenant inducements
Included in accounts payable and accrued liabilities is a tenant inducement payable to the City of Winnipeg in the amount of $2,475,000 in regard to a lease of East District Police Station. The inducement is payable in three instalments expiring October 1, 2029.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

12 *Convertible debentures*

On March 22, 2005, the Trust issued Series A convertible debentures in the amount of $6,000,000.

The debentures bear interest at 8%, mature on March 22, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on March 22 and September 22. The debentures are convertible into units at the request of the holder at any time after March 22, 2007 at a conversion price per unit of $2.55.

On June 29, 2005, the Trust issued Series B convertible debentures in the amount of $5,321,000.

The debentures bear interest at 8%, mature on June 29, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on June 29 and December 29. The debentures are convertible into units at the request of the holder at any time after June 29, 2007 at a conversion price per unit of $3.30 prior to the third anniversary; at a conversion price per unit of $3.65 in the fourth year; and at a conversion price per unit of $4.05 in the fifth year.

On March 29, 2007 and April 5, 2007, the Trust issued Series C convertible debentures in the aggregate amount of $48,300,000.

The debentures bear interest at 7.5%, mature on March 31, 2012 and are subordinate only to the mortgage loans payable, the Series A convertible debentures and the Series B convertible debentures. Interest is payable semi-annually on March 31 and September 30. The debentures are convertible into units at the request of the holder at a conversion price per unit of $3.05.

The following schedule allocates the convertible debentures between the debt and equity components on the basis of the net present value of future interest and principal payments at an estimated cost of borrowing without conversion option as reflected in the schedule.

December 31, 2008	Cost of Borrowing	Debt	Equity	Total
Series A Convertible debentures *	15 %	$ 4,856,744	$ 1,245,806	$ 6,102,550
Series B Convertible debentures	15 %	4,843,762	1,262,654	6,106,416
Series C Convertible debentures	12 %	42,515,140	8,084,048	50,599,188
		52,215,646	10,592,508	62,808,154
Transaction costs		(1,987,610)	-	(1,987,610)
		$ 50,228,036	$ 10,592,508	$ 60,820,544

* The amount outstanding reflects conversion of $750,000 of debentures at face value on January 11, 2008.

December 31, 2007	Cost of Borrowing	Debt	Equity	Total
Series A Convertible debentures	15 %	$ 5,238,393	$ 1,423,778	$ 6,662,171
Series B Convertible debentures	15 %	4,577,615	1,262,654	5,840,269
Series C Convertible debentures	12 %	41,140,378	8,084,048	49,224,426
		50,956,386	10,770,480	61,726,866
Transaction costs		(2,569,718)	-	(2,569,718)
		$ 48,386,668	$ 10,770,480	$ 59,157,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

12 *Convertible debentures (continued)*

The accretion of the debt component which increases the debt component from the initial carrying amount, is included in financing expense (Note 15).

The Series A and Series B convertible debentures of the Trust are secured by a security interest on all the property and assets of the Trust. The security interest ranks senior to the Series C convertible debentures and trust units and subordinate to mortgage loans payable and related collateral security (Note 10). The series C convertible debentures are unsecured.

13 *Intangible liabilities*

December 31, 2008	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 5,157,912	$ (3,654,739)	$ 1,503,173

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 5,157,912	$ (2,930,936)	$ 2,226,976

Amortization of below market in-place leases of $723,803 for the period ended December 31, 2008 (2007 - $1,143,832), is credited to rentals from income properties.

14 *Rentals from income properties*

	Year Ended December 31 2008	Year Ended December 31 2007
Rental revenue contractually due from tenants	$ 73,068,182	$ 68,147,810
Accrued rental revenue recognized on a straight-line basis	1,805,925	955,939
Amortization of above market in-place leases	(433,060)	(508,517)
Amortization of below market in-place leases	723,803	1,143,832
	$ 75,164,850	$ 69,739,064

Rental revenue contractually due from tenants includes the recovery of property operating costs from tenants of $21,565,098 for the period ended December 31, 2008 (2007 - $21,299,298).

15 *Financing expense*

Financing costs are comprised of the following:

	Year Ended December 31 2008	Year Ended December 31 2007
Mortgage loan interest	$ 20,742,699	$ 18,313,957
Interest on debentures	4,468,180	3,647,367
Accretion of the debt component of convertible debentures	1,914,058	1,408,946
Change in value - swap asset	1,375,631	(7,010)
Amortization of mortgage premiums	(111,122)	(117,541)
Amortization of transaction costs	1,757,684	893,278
	$ 30,147,130	$ 24,138,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

16 *Future income taxes*

The expected tax rates applicable to SIFT's of 29.5% for 2011 and 28.0% for 2012 and subsequent years have been applied in the periods that temporary tax differences of the Trust are expected to reverse. The effective tax rate of Consolidated Real Estate Services Inc. is approximately equal to the approximate statutory rate of 30.1%. Income tax transactions are comprised of the following:

	Year Ended December 31 2008	Year Ended December 31 2007
Current income tax recovery	$ 222,146	$ 163,973
Future income tax benefit	1,687,718	3,591,891
	$ 1,909,864	$ 3,755,864

The following tables reflect the components of future income taxes on the balance sheets:

	December 31 2008	December 31 2007
Tax effected deductible temporary difference between accounting and tax basis of:		
Real estate investments	$ 4,778,846	$ 2,843,043
Other assets and liabilities	124,763	748,848
Future Income tax asset (Note 6)	$ 4,903,609	$ 3,591,891

	December 31 2008	December 31 2007
Tax effected taxable temporary difference between accounting and tax basis of deferring charges: Future Income tax liability (Note 11)	$ 253,200	$ 629,200

17 *Tax bases*

The value of the income properties for income tax purposes are as follows:

	Year Ended December 31 2008	Year Ended December 31 2007
Land - adjusted cost base	$ 72,244,878	$ 78,083,704
Building and fixtures - undepreciated capital cost	433,266,662	423,304,458
	$505,511,540	$501,388,162
Financing fees - undeducted reserve	$ 7,339,444	$ 9,798,412
Cumulative eligible capital	$ 736,322	$ 28,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 *Distribution of income*

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to the aggregate of:

- taxable income from operations (exclusive of taxable capital gains, net of allowable capital losses); and
- realized capital gains, net of any realized allowable capital losses for the year.

The following table reflects the minimum distribution required in accordance with the Declaration of Trust:

	Year Ended December 31	
	2008	2007
Business income	$ -	$ -
Dividend income	-	-
Taxable capital gain	619,063	9,243
Minimum distribution required by Declaration of Trust	$ 619,063	$ 9,243
Actual distributions	$ 15,198,398	$ 20,141,386

19 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income per unit calculations are based on the following:

Income (loss) from Continuing Operations:

	Year Ended December 31	
	2008	2007
Income (loss)	$ (11,833,377)	$ 316,948
Diluted income (loss)	$ (11,833,377)	$ 316,948
Weighted average number of units	72,500,707	71,745,488
Dilutive options	-	23,492
Weighted average diluted number of units	72,500,707	71,768,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

19 *Per unit calculations (continued)*

Income (loss) after Discontinued Operations:

	Year Ended December 31 2008	Year Ended December 31 2007
Income (loss)	$ (9,888,625)	$ 879,706
Diluted income (loss)	$ (9,888,625)	$ 879,706
Weighted average number of units	72,500,707	71,745,488
Dilutive options	-	23,492
Weighted average diluted number of units	72,500,707	71,768,980

20 *Units*

During the period, the Trust issued the following trust units:

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Units	Amount	Units	Amount
Outstanding, beginning of period	72,015,135	$175,375,783	67,691,485	$166,032,064
Units issued for cash	-	-	4,166,700	10,000,080
Units issued on conversion of debentures	294,117	768,250	-	-
Value associated with DRIP units	317,369	495,651	156,950	374,192
Unit issue costs	-	(48,263)	-	(1,030,553)
Trust units acquired and cancelled	(37,407)	(78,327)	-	-
Units outstanding, end of period	72,589,214	$176,513,094	72,015,135	$175,375,783

Distribution Reinvestment Plan - (DRIP)
The Trust operates a Distribution Reinvestment Plan whereby, unit holders may reinvest distributions in additional units and/or make additional optional cash payments to purchase units.

Unit holders who elect to reinvest cash distributions under the DRIP will receive units at a price (the "Average Market Price") equal to the weighted average closing price of the units for the five trading days preceding the distribution payment date. With each reinvestment, unitholders will receive a bonus distribution equal to 4% of the amount reinvested which will be reinvested in units at the Average Market Price.

Unitholders who elect to purchase additional units by way of cash payment, will not incur any commissions, service charges of brokerage fees. Units purchased by way of additional cash payment will be purchased at the average market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 *Units (continued)*

Normal Course Issuer Bid:
The Trust had implemented a normal course issuer bid for a twelve-month period ending January 20, 2009 for up to 3,600,119 units, representing 5% of the issued and outstanding units as the date of the announcement. The normal course issuer bid was made in accordance with the policies of the Toronto Stock Exchange. The Trust repurchased 37,407 units for aggregate consideration of $78,327 representing an average per unit price of $2.094 pursuant to this normal course issuer bid.

On January 21, 2009, the Trust renewed the normal course issuer bid for its units for a 12 month period ending January 20, 2010. In accordance with the bid, the Trust may acquire up to 3,629,460 units, representing 5% of the issued and outstanding units. Purchases will be made at market prices through the facilities of the Toronto Stock Exchange. Any units purchased by the Trust will be cancelled.

21 *Unit option plan*

The Trust may grant options to the Trustees, senior officers, investor relations consultants and technical consultants of the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the Exchange on the date of grant. The options will have a maximum term of five years from the date of grant.

On July 17, 2007, the Trust granted options to trustees and officers to acquire an aggregate of 900,000 units at $2.36 per unit. The options have vested and expire July 17, 2012. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model using a risk-free interest rate of 4.66% over and expected life of five years with an expected volatility rate of 14.47% and an expected dividend yield of 11.62%. Compensation expense of $38,760 was recognized when the unit options were granted.

On March 27, 2008, the Trust granted options to trustees and officers to acquire an aggregate of 500,000 units at $2.13 per unit. The options expire March 27, 2013. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model using a risk-free interest rate of 2.91% over an expected life of five years with an expected volatility rate of 12.94% and an expected dividend yield of 12.40%. Compensation expense of $5,886 was recognized when the unit options were granted.

On May 16, 2008, the Trust granted options to officers and consultants to acquire an aggregate of 200,000 units at $2.09 per unit. The unit options expire May 16, 2013. The fair value of the unit options granted is estimated on the date of grant using the Black Scholes option pricing model using a risk-free interest rate of 3.16% over an expected life of five years with an expected volatility rate of 12.25% and an expected dividend yield of 12.63%. Compensation expense of $1,804 was recognized when the unit options were granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 *Unit option plan (continued)*

A summary of the unit option transactions is as follows:

		Units	Exercise Price
Outstanding, January 1, 2007		604,000	$ 2.63
July 17, 2007	Granted	900,000	2.36
Outstanding, December 31, 2007		1,504,000	
Weighted average exercise price			$ 2.47

		Units	Exercise Price
Outstanding, January 1, 2008		1,504,000	$ 2.47
March 27, 2008	Granted	500,000	2.13
April 15, 2008	Expired	(450,000)	2.36
May 16, 2008	Granted	200,000	2.09
Outstanding, December 31, 2008		1,754,000	
Weighted average exercise price			$ 2.38

Subsequent to December 31, 2008, 300,000 options at an exercise price of $2.85 and 77,000 options at an exercise price of $2.00 have expired.

The following securities were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive:

	Exercise/ conversion price	Number of units if converted or exercised At December 31, 2008
Unit options	$ 2.00	154,000
	$ 2.09	200,000
	$ 2.13	500,000
	$ 2.36	450,000
	$ 2.85	450,000
Convertible debentures		
Series A	$ 2.55	2,058,823
Series B	$ 3.65	1,457,808
Series C	$ 3.05	15,836,065
Deferred units	$ N/A	422,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 *Deferred unit plan*

The Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultants of the Trust have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The fair value based method of accounting is applied to all unit-based compensation. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Compensation expense is recognized when deferred units are granted. On the redemption of deferred units, the accumulated deferred unit value is credited to the units of the Trust.

The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 422,158 for the period ended December 31, 2008 (2007 - nil). At December 31, 2008, 422,158 aggregate deferred units were outstanding.

The Trust expensed $317,973 for the period ended December 31, 2008 (2007 - nil) of unit based compensation related to the deferred unit plan which was included in Trust expenses in the consolidated statements of income (loss) and comprehensive income (loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

23 *Acquisitions*

During 2007, the Trust acquired 23 rental properties and 5 parking lots including 4080 - 77 Street, Red Deer, Alberta which was sold and is reflected in discontinued operations. The net assets acquired in the transactions are as follows:

	Continuing Operations	Discontinued Operations	Total Property Acquisitions
Land	$ 19,197,265	$ 2,650,000	$ 21,847,265
Building and fixtures	63,240,114	4,644,600	67,884,714
Building and fixtures			
Furniture and equipment			
Deferred charges			
Tenant inducements	4,972,100	686,000	5,658,100
Leasing expenses	1,565,600	135,000	1,700,600
Recoverable expenditures	110,800		110,800
Future rent receivable	2,216,400		2,216,400
Future rent receivable			
Intangible assets			
Lease origination costs	2,298,200		2,298,200
Tenant relationships	1,789,193	7,400	1,796,593
Commissions			
Above market in-place leases	360,200		360,200
Intangible liabilities			
Below market in-place leases	(666,000)		(666,000)
Furniture and equipment			
Working capital, net	(117,657)	(105,700)	(223,357)
	$ 94,966,215	$ 8,017,300	$ 102,983,515
Cash used to acquire properties	$ 32,426,123	$ 2,225,300	$ 34,651,423
Deposits applied to purchases	-	-	-
Units issued	-	-	-
Mortgage financing	62,540,092	5,792,000	68,332,092
	$ 94,966,215	$ 8,017,300	$ 102,983,515

There were no acquisitions in 2008.

24 *Co-Ownership*

The Trust participates in co-ownerships with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the Trust's proportionate share of assets, liabilities, revenue, expenses, and cash flows therein.

	Year Ended December 31	
	2008	2007
Balance Sheet		
Assets	$ 27,010,119	$ 27,230,531
Liabilities	20,038,808	20,425,544
Income Statement		
Revenues	6,116,470	4,146,024
Expenses	3,212,185	1,969,081
Operating income	2,904,285	2,176,943
Cash Flows		
Cash flows provided by operating activities	668,224	153,286
Cash flows provided investing activities	-	(6,167,265)
Cash flows provided by financing activities	(447,830)	122,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

25 *Related party transactions*

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited and, its parent company, 2668921 Manitoba Ltd. are related parties of the Trust by virtue of the fact that all outstanding shares of 2668921 Manitoba Ltd. are owned by the family trust of an officer and trustee of the Trust.

Property management agreement

The Trust entered into a property management agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. Shelter Canadian Properties Limited is also entitled to leasing fees on new leases of 3% to 5% of base rental payments and leasing fees on renewals of 1 1/2% to 2 1/2% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The following schedule reflects fees incurred by the Trust for property management services:

	Year Ended December 31	
	2008	2007
Property management fees	$ 2,135,679	$ 1,718,583
Leasing fees	85,765	19,463
Renovation fees	306,283	25,688
	$ 2,527,727	$ 1,763,734

Included in accounts payable is $268,397 representing unpaid management and leasing fees owing to Shelter Canadian Properties Limited at December 31, 2008 (December 31, 2007 - $327,475).

Development of Police Station in Winnipeg

The new East District Police Station in Winnipeg, Manitoba which forms part of the HREIT property portfolio was constructed by Bird Construction Income Fund (Bird Construction) at a fixed price of $12.5 Million, with Shelter Canadian Properties Limited acting as the property developer. The fixed price of $12.5 Million includes a development fee to Shelter Canadian in the amount of $200,000.

Services agreement

The Trust entered into a services agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

25 *Related party transactions (continued)*

Services agreement (continued)

Initially, consideration under the services agreement included options granted to Shelter Canadian Properties Limited to acquire an aggregate of 50,000 units at $0.50 per unit. The fair value of the unit options granted was estimated on the date of grant using the Black-Scholes options pricing model using a risk-free interest rate of 3.63% over the expected life of five years with an expected volatility rate of 25.58% and an expected dividend yield of 11.28%. On February 23, 2005, the 50,000 options granted to Shelter Canadian Properties Limited were exercised.

As of December 31, 2008, unit-based compensation in regard to the options has been fully amortized. Unit-based compensation expense of $2,919 for the twelve months ended December 31, 2008 (2007 - $19,620), relating to options issued under the services agreement is included in trust expenses.

For the period from January 1, 2006 to December 31, 2008, fees for services rendered by Shelter Canadian Properties Limited to the Trust pursuant to the services agreement will be calculated at 0.3% of gross book value, excluding cash. Service fee expense of $1,686,534 for the period ended December 31, 2008 (2007 - $1,353,400) is included in trust expenses. The above noted fee arrangement has been extended on a month to month basis.

Consolidated Real Estate Services Inc. (CRESI)

Shelter Canadian Properties Limited provides executive management services and other assistance to CRESI and receives an annual cost recovery fee of $150,000. Cost recovery of $150,000 for the period ended December 31, 2008 (2007 - $150,000) is included in property management costs.

The Guelph office of CRESI provides accounting services in regard to 14 condominium properties managed by Shelter Canadian, the cost of which is reimbursed. During 2008, the cost of services reimbursed was $49,642 (2007 - Nil).

Property acquisitions

During 2007, properties located at 365 Hargrave Avenue, a 50% interest in 220 Portage Avenue and five parking lots with a combined 686 parking stalls were acquired. On the date of acquisition of the interest in the properties, Shelter Canadian Properties Limited, held an 8% ownership interest in the properties acquired.

26 *Risk management and fair values*

Risk management

In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

26 Risk management and fair values (continued)

Liquidity risk
Liquidity risk arises from the possibility of the Trust not having sufficient debt and equity capital available to satisfy its debt and other financial obligations as they mature.

The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years and, by limiting the use of floating interest rate debt. As at December 31, 2008, the weighted average term to maturity of the mortgage portfolio is 4.90 years (2007 - 4.53 years).

Interest rate risk
Interest rate risk is the risk that changes in the market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Interest rate cash flow risk is minimized by having the majority of the mortgage loans on fixed term arrangements. In addition, the maturity dates of the mortgages are staggered over a number of years to reduce the exposure in any one year.

The Trust has floating rate mortgages on income properties (excluding a floating rate mortgages in the amount of $5,236,418, with interest rates fixed at 5.89% by use of an interest rate swap arrangement) comprised of $42,932,212, or 12.5% of the total mortgage loans on income properties as at December 31, 2008 (2007 - $22,170,310 and 6.9%). Had the interest rate changed by a differential of 100 basis points, financing cost would have changed by $304,707 (2007 - $209,227).

With the exception of interest rate swap arrangements, the Trust does not trade in financial instruments.

Market risk
Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, currency risk, and other price risk.

Credit risk
Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Trust controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants.

The Trust has credit policies to address credit risk, which are applied during lease negotiation and which may include the analysis of the financial position of the debtor and review of credit limits. The Trust also may review credit history and credit performance as part of the lease negotiation process. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

26 *Risk management and fair values (continued)*

Credit risk (continued)
A financial asset is past due when a debtor has failed to make a payment when contractually due. An aging of overdue receivables, is as follows:

	December 31 2008	December 31 2007
Rents receivable:		
0 to 30 days overdue	$ 544,906	$ 257,043
30 to 60 days overdue	376,376	82,876
More than 60 days overdue	947,257	274,890
	$ 1,868,539	$ 614,809

The following is an analysis of bad debts charges to income:

	Year Ended December 31 2008	Year Ended December 31 2007
Amounts charged to income	$ 776,110	$ 15,541
Percent of rental revenue	1.03 %	0.02 %

Currency risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust has no transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to other price risk.

Fair values
Financial instruments include cash, amounts receivable, future rent receivable, interest rate swap, acquisition asset, accounts payable, mortgage loans payable, the debt component of convertible debentures payable, and acquisition liability. Except for the acquisition asset, mortgage loans payable, the debt component of convertible debentures, and the acquisition liability, the carrying values of these financial instruments approximate fair value due to the short term nature of financial instruments.

The carrying value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of mortgage loans payable as at December 31, 2008 is $343,030,688 (December 31, 2007 - $319,608,322).

The carrying value of the acquisition asset and acquisition liability is equal to the unamortized principal of a loan which has been assumed by a third party. Based on the discounted cash flow of funds which will flow to or from the Trust, the fair value of the acquisition asset and liability is nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

26 *Risk management and fair values (continued)*

Fair values (continued)
The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable for the period ended December 31, 2008 is $48,315,375 (December 31, 2007 - $48,386,668)

27 *Management of capital*

The capital structure of the Trust is comprised of the following:

	December 31 2008	December 31 2007
Mortgage debt	$ 340,271,219	$ 319,083,730
Convertible debentures		
Debt component	50,228,036	48,386,668
Equity component	10,592,508	10,770,480
	60,820,544	59,157,148
Trust units	176,513,094	175,375,783
Total	$ 577,604,857	$ 553,616,661

The Trust manages capital in order to safeguard its ability to continue as a going concern; to ensure that returns are provided to Unitholders, and to ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the real estate investment portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust allows total mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- The Trust will endeavour to obtain a fixed rate of interest on mortgage financing.
- Mortgage due dates are structured to reflect the nature of the leases and the properties being financed and debt maturity dates will be staggered, to the extent practicable, in order to manage refinancing risk.

As of December 31, 2008, total mortgage indebtedness was equal to less than 75% of the appraised value of properties.

The Trust monitors capital from time-to-time using a variety of measures which are applicable to the real estate industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

27 ***Management of capital (continued)***

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to unitholders; return capital to unitholders; or reduce debt.

Market requirements for attracting capital may vary and may not be accurately predicted by the Trust.

28 ***Segmented financial information - continuing operations***

The assets are comprised in and revenue is derived from the operation of light industrial, office and retail properties as well as the operations of a property management company. Schedule 1 summarizes the segmented reporting by operating segments.

The assets are located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories. Schedule 2 summarizes the segmented reporting by geographic region.

29 ***Commitments and contingencies***

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

30 ***Subsequent events***

Normal Course Issuer Bid

On January 14, 2009, the Trust announced its intention to make a normal course issuer bid for its 7.50% Series C Debentures over the 12 month period ending January 16, 2010 for up to an aggregate of $4,830,000 of debentures, representing 10% of the issued and outstanding debentures. Purchases will be made at market prices through the facilities of the Toronto Stock Exchange. Any debentures purchased by the Trust will be cancelled.

Dispositions

The Trust has entered an unconditional agreement to sell Cityplace in Winnipeg, Manitoba for gross proceeds of approximately $81,500,000 subject to adjustment resulting in a gain on sale of approximately $5.1 Million. Cash proceeds after repayment of debt is expected to be approximately $24.3 Million. The sale is scheduled to close on May 1, 2009.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segmented Information by Property Type

Year Ended December 31, 2008:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Rentals from income properties	12,963,220	36,256,961	25,944,669	75,164,850	-	-	75,164,850
Property management revenue	-	-	-	-	3,084,480	-	3,084,480
Interest and other income	90,444	402,398	298,627	791,469	8,719	60,597	860,785
Operating costs	3,683,911	18,326,620	10,579,862	32,590,393	3,049,743	-	35,640,136
Operating income	9,369,753	18,332,739	15,663,434	43,365,926	43,456	60,597	43,469,979
Financing expense	4,887,890	9,226,187	8,580,386	22,694,463	-	7,452,667	30,147,130
Trust and strategic review expenses	29,253	245,114	153,271	427,638	66,033	4,061,335	4,555,006
Amortization	4,122,392	9,158,350	7,509,748	20,790,490	1,720,594	-	22,511,084
Income (loss) from continuing operations before taxes	330,218	(296,912)	(579,971)	(546,665)	(1,743,171)	(11,453,405)	(13,743,241)
Total assets, December 31, 2008	90,632,648	264,011,832	190,809,885	545,454,365	1,219,182	8,313,053	554,986,600
Total assets, December 31, 2007	86,287,388	249,545,262	205,446,969	541,279,619	2,947,598	5,976,993	550,204,210

Year Ended December 31, 2007:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Rentals from income properties	10,656,986	32,822,320	26,259,758	69,739,064	-	-	69,739,064
Property management revenue	-	-	-	-	2,994,963	-	2,994,963
Interest and other income	102,899	364,326	466,548	933,773	13,795	500,793	1,448,361
Operating costs	2,591,616	15,614,121	10,466,492	28,672,229	2,712,031	-	31,384,260
Operating income	8,168,269	17,572,525	16,259,814	42,000,608	296,727	500,793	42,798,128
Financing expense	2,913,265	7,613,765	7,255,648	17,782,678	-	6,356,319	24,138,997
Trust and strategic review expenses	74,207	131,485	82,108	287,800	71,945	1,995,648	2,355,393
Amortization	3,323,485	7,715,964	8,436,402	19,475,851	266,803	-	19,742,654
Income (loss) from continuing operations before taxes	1,857,312	2,111,311	485,656	4,454,279	(42,021)	(7,851,174)	(3,438,916)

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

Segmented Information by Geographic Region

Year Ended December 31, 2008:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Rentals from income properties	-	6,274,060	560,403	42,314,869	4,235,622	19,039,732	2,740,164	-	75,164,850
Property management revenue	3,084,480	-	-	-	-	-	-	-	3,084,480
Interest and other income	8,719	17,470	1,257	418,210	10,957	228,300	115,275	60,597	860,785
Operating costs	3,049,743	1,757,336	133,107	20,549,082	1,878,092	6,663,261	1,609,515	-	35,640,136
Operating income	43,456	4,534,194	428,553	22,183,997	2,368,487	12,604,771	1,245,924	60,597	43,469,979
Financing expense	-	1,851,290	156,845	12,158,803	648,210	7,376,776	502,539	7,452,667	30,147,130
Trust and strategic review expenses	66,033	30,949	778	242,121	20,996	118,697	14,097	4,061,335	4,555,006
Amortization	1,720,594	1,432,083	126,866	12,193,232	518,800	5,998,438	521,071	-	22,511,084
Income (loss) from continuing operations before taxes	(1,743,171)	1,219,872	144,064	(2,410,159)	1,180,481	(889,140)	208,217	(11,453,405)	(13,743,241)
Total assets, December 31, 2008	1,219,182	45,309,304	4,286,749	306,796,436	18,167,680	157,620,799	13,273,397	8,313,053	554,986,600
Total assets, December 31, 2007	2,947,598	46,074,903	4,141,530	298,296,478	18,529,530	160,266,767	13,970,411	5,976,993	550,204,210

Year Ended December 31, 2007:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Rentals from income properties	-	6,137,243	574,606	37,232,046	4,110,448	18,732,723	2,951,998	-	69,739,064
Property management revenue	2,994,963	-	-	-	-	-	-	-	2,994,963
Interest and other income	13,795	35,286	1,076	451,882	29,572	366,917	49,040	500,793	1,448,361
Operating costs	2,712,031	1,559,619	123,396	17,291,922	1,682,523	6,459,459	1,555,310	-	31,384,260
Operating income	296,727	4,612,910	452,286	20,392,006	2,457,497	12,640,181	1,445,728	500,793	42,798,128
Financing expense	-	1,881,468	171,431	8,513,531	656,154	6,107,819	452,275	6,356,319	24,138,997
Trust and strategic review expenses	71,945	12,935	385	184,803	8,504	79,270	1,903	1,995,648	2,355,393
Amortization	266,803	1,435,605	156,357	10,163,797	542,043	6,522,520	655,529	-	19,742,654
Income (loss) from continuing operations before taxes	(42,021)	1,282,902	124,113	1,529,875	1,250,796	(69,428)	336,021	(7,851,174)	(3,438,916)

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of HREIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. As the appointed Administrator of HREIT, Shelter Canadian Properties Limited has the right to appoint one trustee.

Administrator of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of HREIT and to perform the accounting and reporting functions of HREIT.

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the HREIT portfolio.

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Listings

Toronto Stock Exchange (TSX)
Unit trading symbol: HNT.UN
Debenture trading symbol: HNT.DB.C

Unitholder and Investor Contact

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